TABLE OF CONTENTS

TABLE OF CONTENTS

Page

PART I

[illegible] . . . . [illegible]

PART II

[illegible]

[illegible]

[illegible] . . . . [illegible]

[illegible] . . . . [illegible]

[illegible] . . . . [illegible]

[illegible]

(a) [illegible]
[illegible] . . . . [illegible]

(b) [illegible]
[illegible] . . . . [illegible]

[illegible]
[illegible] . . . . [illegible]

PART III

[illegible]

[illegible] . . . . [illegible]

[illegible] . . . . [illegible]

(1) [illegible] . . . . [illegible]

(2) [illegible] . . . . [illegible]
[illegible] . . . . [illegible]
[illegible] . . . . [illegible]

(3) [illegible] . . . . [illegible]
[illegible] . . . . [illegible]
[illegible] . . . . [illegible]

(4) [illegible] . . . . [illegible]

(5) [illegible] . . . . [illegible]

(6) [illegible] . . . . [illegible]

(7) [illegible] . . . . [illegible]

(8) [illegible] . . . . [illegible]

(9) [illegible] . . . . [illegible]

(10) [illegible] . . . . [illegible]

Part IV

Investments Profits and Costs

Part V

Organization of the Textile Industry

Part VI

Public and Governmental Relations of the Industry

FOREWORD

--

In the preparation of the briefs submitted, we, as Counsel for the Commission, have considered it our duty to deal with the evidence from the point of view of the consumers, the employees, and the public generally.

The industry has been ably represented by Counsel. Several of the corporations involved have been individually represented, and Counsel have appeared on behalf of the industry as a whole. Briefs will be presented by Counsel so appearing for their clients from the point of view of the industry and its various members.

In this manner, submissions of all Counsel should comprehensively deal with relevant evidence so that sound conclusions may be reached on those matters referred to the Commission under the terms of the Order in Council.

J. C. McRUER.

ELIE BEAUREGARD.

PART I

INTRODUCTION

The Order-in-Council P.C. 223, authorizing the appointment of a Royal Commission to investigate the textile industry, is dated the 27th January, 1936.

An analysis of the Order in Council may be summarized as follows:

1. The appointment of the Commission developed out of the action of Dominion Textile Company Limited in closing down the Rayon Division of the Sherbrooke branch of the Company.

2. On the 18th January the Minister of Finance received a telegram from the City Clerk of the City of Sherbrooke making strong representations that the Government intervene immediately - - - -"and take immediate steps to remedy the situation."

3. Representations appeared in the press that uncertainty in the textile market, due in large part to Japanese competition in artificial silks, had forced Dominion Textile Company Limited to close its plant at Sherbrooke and that the plant would remain closed until the situation in the industry had been clarified.

4. G. Blair Gordon, the President of Dominion Textile Company Limited confirmed the report by telegram to the Montreal Gazette and added "Hope to re-open when we can see possibility of manufacturing goods which can be sold."

5. The Government despatched a representative of the Department of Labour to Sherbrooke to investigate the situation, whose report to the Government evidenced the necessity that "If the request of the City of Sherbrooke is to be met and the present situation in

the industry clarified" an investigation by a Royal Commission was necessary.

6. The Minister, in his report to Council, observed that the acute distress and suffering of wage earners and their dependents that follows the cessation of operations in industrial establishments and that he was of the opinion that industry generally, and especially an industry which has had for years the benefit of protection afforded by the customs tariff, should recognize its responsibility to carry on operations with due regard to its obligations to its employees and to the public, and not to arbitrarily shut down its plants.

For the purpose of determining the responsibility of employers and to enable appropriate action to be taken with regard to the interests of (a) the public, (b) the employees, (c) the industry itself, it appears essential that the Government be fully advised in respect to:

(1) What protection has been afforded to the textile industry by the customs tariff in the past?

(2) Has the textile industry recognized its obligations to the public and to its employees?

(3) Has it arbitrarily shut down its plants?

(4) What is the responsibility of employers in protected industries in regard to the interest of (a) the public, (b) the employees, (c) the industry?

7. For the purpose of advising the Government in order that sound conclusions may be reached in respect to these matters, it is essential that full and complete information be available covering a period of years with respect to:

(a) Tariff protection
(b) Investments
(c) Profits
(d) Wages
(e) Salaries and bonuses
(f) Costs
(g) Volume of production
(h) British and foreign competition

8. It is desirable that conclusions be reached in regard to the extent to which the employer can reasonably and properly be expected to maintain employment over periods of temporary difficulty.

The circumstances that gave rise to the closing of the Rayon Branch of the Sherbrooke plant of Dominion Textile Company Limited arose out of a trade agreement negotiated between the Canadian Government and the Japanese Government, which became effective on the 26th December,1935. The terms of the agreement are set out in Exhibit 401, a copy of a letter from the Prime Minister as Secretary of State for External Affairs, to Sotomatsu Kato, Japanese Minister to Canada, which is as follows:

"No. 22

Ottawa, December 26, 1935.

Sir:

I have the honour to inform you that the Canadian Government, in accordance with its general policy respecting trade and tariff matters, has decided to make the following modifications in its Customs regulations :-

1. The classification "goods of a class or kind made or produced in Canada", as it appears in the Customs Tariff, will be restricted to goods which are of a class or kind made or produced in Canada in quantities sufficient to supply at least ten per cent of the normal Canadian consumption. Adequate notice will be given of the transfer for Customs purposes of a product from the category "not of a class or kind made or produced in Canada" to the category "of a class or kind made or produced in Canada".

2. In computing the value for duty of goods of a class or kind not made or produced in Canada, the value of the yen will be the correct exchange value in terms of the Canadian dollar at the time the goods were exported to Canada.

3. In computing the value for ordinary duty and for special duty under Section 6 of the Customs tariff of goods of a class or kind made or produced in Canada the value of the yen during the twelve months beginning January 1st, 1936, will be at the rate of 39.5 cents; being the average exchange value of the yen, in terms of the Canadian dollar, for the five-year period 1930-34, based on the exchange rates published in the Statistical Year Book of the League of Nations. For the succeeding twelve-month period the yen will be taken at the average exchange value for the five-year period 1931-35, computed on the same basis, and similarly for each succeeding year. It is understood, of course, that if the yen should reach a value in Canadian currency higher than the value set forth or provided for above, such value would thereupon cease to apply and would be replaced by the current exchange value.

4. The values established under authority of Section 43 of the Customs Act will be cancelled on January 1st, 1936, on an extensive list of commodities.

5. Opportunity will be afforded for appeal to the Tariff Board of Canada respecting any value for duty which may in future be established under Section 43 of the Customs Act. In the event of such an appeal the value for duty in force will, upon the expiration of three months after the date of appeal, cease to have any force or effect unless the Tariff Board, following a public inquiry, finds that such value or some lower value is required to prevent the importation of the goods into Canada from prejudiciously or injuriously affecting the interests of Canadian producers or manufacturers. If a lower value is found by the Tariff Board to be appropriate such lower value will promptly be made effective.

The Canadian Government has decided to cancel on January 1st, 1936, the surtax of 33 1/3% ad valorem levied on goods the produce or manufacture of Japan under the regulations made by Order-in-Council P.C. 2108 of July 22nd, 1935, as modified by Order-in-Council P.C.2317 of August 3rd, 1935.

Accept, Sir, the renewed assurances of my highest consideration.

W. L. MACKENZIE KING

Secretary of State
for External Affairs.

Mr. Sotomatsu Kato,
Japanese Minister to Canada,
Japanese Legation,
Ottawa."

On the 1st January, 1936, the trade agreement negotiated with the United States of America on the 15th November, 1935, became effective. One of the provisions of this agreement was that certain changes would be incorporated in contemplated amendments to the Customs Act affecting the method of valuing merchandise for duty purposes. These are set out in Exhibit 649.

Pending the legislative changes, certain fixed values for duty purposes established under Section 43 of the Customs Act of Canada were cancelled on a list of goods set out, which included fabrics of cotton or of artificial silk.

The result was that the fixed valuation of $1.25 per pound on artificial silk fabrics no longer applied on goods imported into Canada from Japan, due to the fact that a Most Favoured Nation agreement existed between Canada and Japan.

Heretofore, in valuing goods imported into Canada from Japan, the yen was taken at a rate of exchange for duty purposes at 49.85¢, while the current rate of exchange was 29¢. The effect of the agreement between Canada and Japan was to establish a rate of exchange of 39.5¢ for the year 1936, and as a result the trade agreement with the United States of America withdrawing fixed valuations in respect to artificial silk goods imported from that Country, was to permit the entry of Japanese artificial silk goods at a valuation for duty computed at a rate of exchange of 39.5¢, without any fixed valuation.

PART II

The Effect of Japanese Competition on the Textile Market of Canada

1. Canada's Trade with Japan - 1922 to 1936.

A perusal of Exhibit No. 666 shows that from the year 1922 up to the 31st March, 1935, Canada had exported to Japan goods to the value of $325,128,460, while Canadian imports direct from Japan amounted to $114,317,970. This however does not give an accurate picture of Canada's trade with Japan as a great quantity of raw silk imported from the United States of America undoubtedly was of Japanese origin.

The total amount of raw silk imported from the United States of America during the fiscal years 1926 to 1935 inclusive, (the only years for which the figures are available) amounted in value to $46,734,128. This value includes raw silk wherever originating, and imported into Canada from the United States of America. If this sum is added to the total value of imports direct from Japan, the value of the Japanese imports for the period would be $161,052,198, as compared with the total value of exports to Japan of $325,128,460.

A further analysis of Exhibit No. 666 shows that Canada's export trade with Japan reached the high point of the period in the year 1929, when the exports amounted in value to $42,099,968, as against total imports (including all raw silk imported through the United States of America) amounting in value to $19,472,484. During that year, Canada's export trade with Japan amounted to 3.09% of her total export trade, while her import trade

with Japan (including raw silk from the United States of America) amounted to only 1.45% of her total import trade.

In the year ended 31st March, 1930, Canada's exports to Japan amounted in value to $30,475,581, while her imports (including all raw silk imported through the United States of America) amounted in value to $18,140,253.

By the fiscal year ended 31st of March, 1933, Canada's imports from Japan (exclusive of raw silk from the United States of America) had dropped in value to $3,860,911, or including raw silk from the United States of America, to $7,904,907, while the exports to Japan had dropped in value to $10,327,492, or $31,772,476, below the high point of 1929.

At the end of the fiscal year, 31st March, 1935, Canada's exports to Japan had risen in value to $16,935,869, while Canada's imports from Japan had risen in value to only $4,424,654, (exclusive of raw silk imported through the United States of America), or $8,088,715, inclusive of raw silk imported from the United States of America.

It will, therefore, be seen that in the spring of 1935 Canada was selling $2.00 worth of goods to Japan for every dollars worth bought from Japan assuming that all raw silk imported from the United States of America came from Japan, which is not, of course, a correct assumption; but there is no statistical information which will reveal the origin of raw silk imported from the United States of America, and, for the purpose of this brief, I am willing to make that assumption.

The following summary, taken from Exhibit No. 666, shows the decline in principal exports to Japan between the five years ended March 31st, 1930, and the five years ended March 31st, 1935:

	5 Years Ended March 31, 1930.	5 Years Ended March 31, 1935.
Lead in pigs	$18,432,910	$6,802,423
Timber, square	10,040,738	4,301,832
Wheat	65,556,633	14,988,616
Wood Pulp	12,368,941	8,995,681
Zinc Spelter	8,975,504	3,697,573

The following is a table of wheat imports into Japan by originating countries between the years 1929 and 1935, taken from "The Oriental Economist" of July, 1936, Exhibit 668 (Page 8986).

TABLE 1. Wheat Imports by Originating Countries (In 1,000 piculs)

	Australia	Canada	America	Other	Total
1929	2,402	6,649	2,439	739	12,231
1930	1,706	2,957	3,398	-	8,063
1931	8,554	2,597	884	3	12,039
1932	10,264	1,983	195	-	12,443
1933	6,593	1,874	49	3	8,520
1934	4,455	1,325	2,220	153	8,155
1935	5,558	881	45	931	7,417

A study of this table shows how the Canadian wheat trade with Japan has been almost completely lost to Australia.

2. Trade Negotiations between Canada and Japan, 1935.

During the first six months of 1935 the Japanese Government made representations to the Canadian Government for more equitable trade relations with Canada, the contention being that Japan was buying more than twice as much from Canada as she was selling to Canada. During those negotiations, the representatives of the textile industry persistently and insistently protested against any amelioration of this condition.

A. O. Dawson, President of Canadian Cottons Limited in a letter to the Hon. R.B.Hanson, Minister of Trade and Commerce dated the 13th of June, 1935, went to the length of stating,

> " As I stated in one of my earlier letters, largely because of British competition, we are only able to operate our mills at the present time from three to four days per week, and, therefore, it is quite clear that if we have to reduce our production further still, because of Japanese competition, our workers will be drawing starvation wages and the industry itself will be in extreme danger of annihilation."

The tariff barrier between Canada and Japan at that time in respect to textiles is set forth in the evidence of Mr. Hooper at Page 1617 and following. (See Exhibit No.125). On a pound of artificial silk fabric costing 25¢ in Japan, ad valorem, specific, and special duties, together with excise tax payable, amounted to $1.53½¢ In addition the Canadian importer would have to pay the cost of transportation from Japan. (Hooper, Page 1625).

After lengthy diplomatic correspondence with Canada, Japan, on the 20th July, 1935, imposed a 50% surtax on the following Canadian goods when imported into Japan:

Wheat

Wheat Flour

Flour of high glutin

Starch

Mechanical pulp for paper making

Other pulp for paper making

Wrapping Paper and match paper, excluding tissue paper

Felt for paper making

Wood, cut, sawn or split

White Cedar - Red Cedar

Spruce - Firs

Exhibit 506 (Page 7423)

Canadian products exported to Japan not affected by the surtax amounted in value to $9,482,447. in the year 1934. The exports of Canadian products of the character affected by the surtax amounted in value to $7,000,000 in 1934. (Page 7423)

When the Japanese Government imposed the surtax on these Canadian goods, the Canadian Government retaliated with a 33-1/3% surtax on all goods imported into Canada of Japanese origin. This was made effective by Order in Council, P.C. 2108 dated July 22, 1935, as of the 5th of August, 1935, (Pages 1736, 1743). The effect of this Order in Council, was to make the importation of Japanese products into Canada practically prohibitive, and to cut off trade in those Canadian products affected by the Japanese surtax, with a loss to Canada, on the basis of exports for 1934, of trade to the value of $7,000,000.

The imposition of the surtax by the Government of Canada on all Japanese products had a detrimental effect on the Canadian silk weavers and the manufacturers of silk products. In Exhibit No. 454 (Page 615), Douglas Hallam, Secretary of the Silk Association of Canada, in a letter to Mr. J. H. Marx, the President of the Silk Association of Canada, dated 27th July, 1935, deals at length with the situation. Mr. Hallam makes the following points:

1. If Canadian mills are to continue to use silk, they must buy Japanese silk whether there is a surtax or not, and, therefore, the surtax applied on this raw material would not change the channel of trade.

2. In the fiscal year of 1935, the Canadian importers purchased $3,837,406 worth of raw silk, which was used half by the hosiery manufacturers and half by the fabric manufacturers.

3. Some mills required to fulfill their contracts far ahead of the end of the year, and in order to do so would have to import raw silk at the increased price caused by the added surtax.

4. Hosiery manufacturers cannot substitute any other fibre, and must buy Japanese silk. "The surtax will result in increasing the cost of silk hosiery, but will not penalize Japan in any way, because the hosiery men must continue to buy Japanese silk."

5. The silk manufacturers are in intense competition with the manufacturers of artificial silk, and the surtax on raw silk would increase the cost of silk fabrics and upset the balance between the two types of fabrics.

6. Semi-manufactures, and manufactures produced from Japanese raw silk in other countries than Japan, were not subject to the surtax. This put Canadian manufacturers at a disadvantage with foreign manufacturers. Mr. Hallam put it as follows:

> " There are a large number of tariff items where the rates are such that the increased cost of Canadian manufacture, due to the surtax, will turn business to other countries, with a consequent loss to employment in Canada. It does not seem sound Canadian policy to prevent Canadian workers manufacturing Japanese silk, and turning the business over to workers in other countries. This is penalizing Canadians and not Japanese."

Other views along this line are expressed in the letters contained in Exhibit No. 454 (Page 615). The matter was apparently repeatedly put before the Government, as shown in the letter from Mr. Hallam to Mr. Marx dated July 31st, 1935:

> " We have put the question of Japanese raw silk before the Government by telephone, telegram and memorandum."

It was this serious situation that faced the Government of Canada in the fall of 1935. The export trade with Japan

was virtually at a standstill, although the trade with Japan formed a small share of Canada's export trade, its national importance is evidenced by comparing the total capital invested in the textile industry with the total export trade with Japan alone during the last ten years. Exhibits 916, 998, 1017, 1069, 1082, 1155, 1191 and 1202, filed by Mr. Howson, covering the reporting companies in all branches of the textile trade, show that the amount of capital invested in these companies amounts to $146,873,160.50. A perusal of Exhibit No. 666 (Page 8983) shows that Canada's export trade with Japan alone in the last ten years amounted to $230,897,736. and amounted to more annually than twice the total annual wage bill of Dominion Textile Company Limited.

It was to regain this lost market and relieve Canadian industry that negotiations were opened up between the Governments of Canada and Japan in November, 1935, which resulted in the agreement of December 26, 1935. Exhibit 401 (Page 6265). The surtax remained effective until the 1st of January, 1936.

Under the provisions of the agreement arrived at, the valuation of the yen for duty purposes on goods of a class or kind made in Canada, was fixed for the year 1936 at 39.5¢ (Page 6266) being the average exchange value of the yen in terms of the Canadian dollar for the five-year period 1930-34. For the succeeding twelve months period, the yen will be taken at the average exchange value for the five-year period 1931-35, computed on the same basis, and similarily for each succeeding year unless the prevailing value of the yen should exceed this average. The treaty also provided that in the case of goods of a class or kind not made in Canada the current rate of exchange for the yen was to be used in computing the

value for duty purposes. Exhibit 138 (Page 1725) and Exhibit 644 (Page 8565).

The above meant considerable reduction in the laid down cost of Japanese goods, as the yen had been valued for duty purposes at 49.85¢ (Page 1915).

By reason of the treaty negotiated with the United States of America which became effective on the 1st of January, 1936, minimum valuations for duty purposes fixed under Section 43 of the Customs Act on certain textile goods imported into Canada were no longer effective against countries having the benefit of Most Favoured Nation Treaty. This removed the fixed valuation on artificial silk fabrics of $1.25 a pound when imported from Japan. It was this that gave rise to the complaints which were made to the Government early in January, 1936.

3. The Duty payable on Rayon Fabrics after January 1st, 1936.

Exhibit 126 (Page 1627) illustrates the duties payable on artificial silk fabrics after the trade agreement became effective:

On a piece of 27" piece dyed plain rayon taffeta weighing 3 1/3 lbs. for 30 yards, 63¢ duty would be payable on a 24¢ article.

Notwithstanding the changes effective on January 1st, 1936, the Canadian manufacturers had more protection than was provided the manufacturers of similar materials in the United States of America.

Exhibits 526 to 528 are comparative statements showing the duty payable on similar artificial silk fabrics imported into Canada and into the United States of America. (Pages 7533 - 7552).

The Exhibit deals with a 1000 yard piece of 36"

artificial silk piece dyed satin, 5.62 yards per pound costing in Japan at the current rate of exchange $63.65. (Page 7435). The duty payable on this article on importation into the United States of America would amount to $118.29 (Page 7436). The duty payable on the same article on importation into Canada would amount to $127.87 (Page 7438); or a total duty on a ad valorem basis on importation into the United States of America of 204% (Page 7438) as against a total duty on an ad valorem basis on importation into Canada of 221% (Page 7440).

On the 15th of June, 1936, the Government of the United States of America reduced the rate of customs duty on rayon fabrics, (Page 7439) with the result that on the same article the total duty payable would be $108.74, or on an ad valorem basis a duty of 188%, being 33% less than the total Canadian duty calculated on an ad valorem basis. (See Exhibit 527)

Exhibit No. 528 is a comparative table showing the customs duties imposed on artificial silk fabrics of jacquard weave. On the articles compared in these exhibits the Canadian rate of duty ranges from 1% to 10% higher than those obtaining in the United States of America prior to the 15th of June, 1936.

Exhibit No. 525 shows the importations of rayon fabrics into the United States of America from Japan for the years 1932 to 1936. These importations are practically negligible, notwithstanding the fact that rayon fabrics sell at a higher price in the United States of America than in Canada making it easier for the Japanese merchants to undersell the American market than the Canadian.

4. <u>Efforts to Intimidate the Government.</u>

(a) <u>Representations to the Government and the closing of the Rayon Division of the Sherbrooke Branch of Dominion Textile Company Limited.</u>

A short time after the new trading relations between Japan and Canada became effective, those interested in the textile industry secured an appointment with the Minister of Finance to hear a delegation of representatives of the industry in order that they might protest against the freer admission of Japanese textiles to the Canadian market.

On January 14, 1936, the delegation was received by the Minister of Finance, the Minister of Trade and Commerce and the Minister of National Revenue. If consisted of :

H.W. Lundy - Chairman of the Primary Textiles Institute, Penmans Ltd., representing makers of Knit Goods - Underwear and Hosiery.

W.P. MacDougall - of Belding-Corticelli Ltd. - representing makers of Threads, Twists, Braids, Ribbons and Hosiery.

R.G. Tolmie - of Canadian Cottons Ltd., - representing makers of Cotton Yarns and Piece Goods, Rayon Fabrics.

N. Linnett - of Courtaulds (Canada) Ltd. - representing makers of Rayon Yarns.

J.H.Marx - of Associated Textiles of Canada Ltd. - Representing makers of Silk and Rayon Fabrics.

J.G. Dodd - of Paton Mfg. Co. - representing makers of Worsted Yarns and Woollens and Worsted Cloth.

G.B. Gordon - of Dominion Textile Co. Ltd. - representing makers of Cotton Yarns and Piece Goods, Rayon Fabrics.

P.R. Watson - of Grout's Ltd. & Valleyfield Silk Mills - Representing makers of Silk and Rayon Fabrics.

Brinley Taylor - of Courtaulds (Canada) Ltd. - representing makers of Rayon Yarns.

Douglas Hallam - Secretary, Primary Textiles Institute.

A report of the proceedings in Ottawa, as made to the members of the industry by J. H. Marx, Chairman of the Broad Silk Section, is contained in Exhibit 277. This report was sent out over the signature of W.M. Berry, the Assistant Secretary of the Silk Association of Canada, on the 17th day of January, 1936. It shows that prior to the meeting with the Ministers, a meeting was held with Mr. Scully and certain expert advisers in the Customs Department, during which the different possibilities of meeting any situation that should arise from a flooding of the Canadian market with Japanese goods was discussed. The report states that following this meeting

> "one of the largest mills expressed the opinion that it would be impossible to maintain the present level of employment during the next three or four months, and severe curtailment would be necessary."

According to the report, the following is the substance of statements made to the Ministers :

1. All branches of the textile trade were concerned over the Japanese situation.

2. The whole trade of the country was upset, including retailers, wholesalers and manufacturers.

3. Deliveries were being cancelled.

4. New orders were not being placed.

5. Production was being stopped.

6. R. G. Tolmie, Canadian Cottons Limited, explained that the Japanese goods had forced the shutting down of the Milltown mill which was making these goods, and produced cancellations of orders which had been received.

7. J.H. Marx, of Associated Textiles of Canada Limited, stated that due to the uncertainty of the Japanese textile situation, his customers were not placing their requirements, especially the staple industries such as the underwear manufacturers.

> " ------ the result of which was the necessity of shutting his mill down completely, as well as two other mills of which he was the greatest user of their production. This forced out of employment between 1000 and 1400 people."

8. G. B. Gordon, of Dominion Textile Company Limited, explained

> "that the Japanese situation had resulted in an entire lack of orders for the mills at Sherbrooke and Valleyfield, and that it would be necessary to stop 600 looms at Sherbrooke and 500 at Valleyfield." (These are all looms occupied in the manufacture of rayon.)

9. It was pointed out to the Ministers that these were illustrations of what was happening, and that the entire situation was one to cause the gravest concern.

The report concludes:

> "It will be clearly understood that every effort should be made by all concerned to have action taken by the Government on fixed valuations, but a large amount of information is necessary which will take time to collect. It will be necessary for every mill to bring costs of importations of Japanese goods to the attention of the Primary Textiles Institute. We also point out that these three men were very favourably inclined to keeping mills in Canada in operation, but that we have to bring proof first. During this period any aggravation of the situation by over-production should be avoided."

Mr. G. B. Gordon, Managing Director of Dominion Textile Company Limited, stated in evidence that the Minister of Finance suggested to the delegation that

buyers were sometimes prone "to try and put the wind up manufacturers", and that the wide-spread agitation in the trade was probably put on to try and frighten the manufacturers, and the Minister suggested that the trade should wait and see "how the thing ironed out in the long run." (pages 6635 and 6636.)

On January 16th, 1936, Brinley Taylor of Courtaulds (Canada) Limited, wrote to P. J. Gratwick of Courtaulds Limited, England, confirming a telephone conversation that had apparently taken place. The purpose of Mr. Taylor's letter was to get information from the English Company in regard to possible Japanese competition.

The matter appears to have been sufficiently important for Mr. Taylor to telephone to England, and for the English Company to cable Mr. Taylor.

What Mr. Taylor was doing was making enquiries about Japanese competition and not informing the English Company of Japanese competition in Canada.

In his letter, Mr. Taylor states as follows:

> " In a subsequent interview with the Minister of Finance, Minister of Trade & Commerce and Minister of Customs, etc., we were told it was possible to restore some dumping duty, if the circumstances warranted it, but we were told pretty definitely that they could hardly credit such low prices being possible in Japan, when the domestic cost was approximately 17¢ per yard, for a similar construction.
>
> There is no doubt we can substantiate this particular quotation very shorly, but as the volume on these cloths is a comparatively small part of the total consumption, we shall have to verify that the Japs can manufacture all types of all-rayon fabric, crepe de chine, French crepes, rough crepes, etc., on a proportionate price basis.
>
> If you have any information or quotations with samples, we should certainly appreciate your sending them forward without delay."

Notwithstanding the counsel and advise from the Minister of Finance, Mr. Gordon, on returning to Montreal, without any information other than a few quotations by A.B. Fisher & Company on a very cheap fabric, issued orders the following day to close down operations in the Rayon Division of the Sherbrooke Branch, of Dominion Textile Company Limited, on Friday night, January 17, 1936. On the same date Mr. Gordon wrote to J. G. Kershaw, General Superintendent, Sherbrooke Branch, Dominion Textile Company, Limited, as follows:

> "In view of unsettled conditions in the rayon field at the present time, we have decided against making a definite appointment of a new superintendent of the Rayon Division at Sherbrooke Branch. We wish you to assume the title of "Acting Superintendent, Rayon Division," and to appoint Mr. H.A. Gilbert as "Assistant Superintendent, Rayon Division," effective at once.
>
> You will be receiving instructions from Mr. Daniels to close down operations in the Rayon Division Friday night, January 17th, as this action is necessary in view of the threatened invasion of the Rayon market in Canada by Japanese goods at the present time. We have made representations in Ottawa in the proper quarters but, until some action is taken by the Government to stabilize the situation, it is quite impossible for us to book any further orders or to continue production for stock purposes." (Exhibit 3)

On the same date, F. R. Daniels, Manager of Grey Mill Operations, Dominion Textile Company Limited, wrote to Dominion Textile Company Limited, Sherbrooke Branch, as follows:

> "Further to our conversation of Monday regarding short time operations.
>
> Since that date further complications have arisen which necessitate more drastic action. You will therefore, post the

following notice in several prominent places throughout the Rayon Mill :-

DOMINION TEXTILE COMPANY LIMITED

SHERBROOKE BRANCH - RAYON DIVISION

THIS MILL WILL CLOSE DOWN ON FRIDAY

JANUARY 17TH AND WILL REMAIN CLOSED INDEFINITELY.

(SIGNED) G. B. GORDON

MANAGING DIRECTOR. "

Pursuant to these instructions, Mr. Kershaw posted the notice and closed the mill as directed.

Contemporaneously with the issue of instructions to close the Rayon Division of the Sherbrooke Branch of Dominion Textile Company Limited, Mr. Gordon wrote to Hector MacKinnon, Commissioner of Tariffs, under date of the 16th January, 1936, which letter reads in part as follows :

"Since returning from Ottawa, I have reviewed our own rayon situation carefully, and, in view of our present stocks and the doubtful validity of present orders on our books, I can only conclude that it would be sheer folly to continue producing more rayon goods in the Rayon Division of our Sherbrooke Branch. I have, therefore, made arrangements for that mill to cease operations tomorrow night; and it will have to remain closed until we can have some reasonable grounds for assuming that goods produced can eventually be sold at a price level in line with cost of production. The mill in question employs between 500 and 600 hands, or approximately 50% of the total employees in the Sherbrooke Branch of the Company.

I am hoping that, in spite of the rather indefinite promises of immediate action made by Mr. Dunning, something will be done to stabilize the whole situation so far as landed values on all types of textiles from Japan are concerned. I think the idea of waiting for the situation to develop is tantamount to watching a fire make headway before attempting to bring it under control, and I am afraid the longer the Government holds off the

more difficult it will be in the
end to make the changes which are
absolutely necessary if our whole
industry is to be kept in the picture."

On the 17th day of January, Mr. Gordon, in reply to an inquiry from the Montreal Gazette, sent a telegram as follows:

"Report correct. Mill employs about
five hundred of both sexes. Hope to
re-open when we can see possibility of
manufacturing goods which can be sold."
(Exhibit 152; pages 2176, 2181, 2184,
2186).

Following a special emergency meeting of the City Council of the City of Sherbrooke, the following telegram was sent to the Prime Minister of Canada :

"Special emergency meeting City
Council held today strongly ask that
your Government intervene immediately
over the situation that has developed
whereby our largest flat silk industries
employing over a thousand hands has
suddenly closed down leaving these
people without employment STOP Our City
unable to cope with alarming situation
and request your Government take immediate
steps to remedy this condition STOP City
cannot take care of such increased
unemployment." (page 81)

Immediately following the closing of the mill, Mr. Charles B. Howard, Member of the House of Commons for the Sherbrooke district, got in touch with Mr. J.G. Dodd, the Sales Manager of Dominion Textile Company Limited, and arranged to meet him on the following Tuesday, for the purpose of discussing the situation in Sherbrooke. During the discussion Mr. Dodd told Mr. Howard that the reason for closing the mill was on account of competition from Japan. He stated that there were goods coming in there that were responsible for very serious competition, and they did not dare go on manufacturing in Sherbrooke in those competitive lines. (Page 7498).

In the meantime, Mr. Howard had interviewed members of the Cabinet of the Dominion Government, and a representative of the Department of Labour had been despatched to Sherbrooke.

On Friday, the 24th day of January, 1936, the Minister of Finance made a report to a committee of the Privy Council, recommending that a Royal Commission be appointed to investigate not only the circumstances surrounding the closing of the Sherbrooke Branch of Dominion Textile Company Limited, but all aspects of the textile industry as set out in the Order in Council authorizing this Commission.

On the same date, Dominion Textile Company Limited issued orders to J. G. Kershaw, General Superintendent of the Sherbrooke Branch, to re-open the mill on Wednesday, January 29th.

The following questions present themselves for consideration:

1. Was it necessary to close the Rayon Division, Sherbrooke Branch of Dominion Textile Company Limited on account of competition that was being received from Japanese goods being imported into the Dominion of Canada ?

2. Were the following statements made to the Government by G.B. Gordon, Managing Director of Dominion Textile Company Limited in the letter dated the 16th of January, 1936, addressed to Hector MacKinnon, Esq., Commissioner of Tariffs, warranted :

> (a) "In view of our present stocks and doubtful validity of present orders on our books, I can only conclude that it would be sheer folly to continue producing more rayon goods in the Rayon Division of our Sherbrooke Branch."

(b) "There were no reasonable grounds for assuming that goods produced could eventually be sold at a price level in line with cost of production."

(c) "The longer the Government holds off, the more difficult it will be in the end to make changes which are absolutely necessary if our whole industry is to be kept in the picture." (Exhibit 149).

3. Were the following statements made to the Ministers on the 14th of January warranted, and a truthful account of what had taken place :

(a) Mr. Marx, of Associated Textiles of Canada Limited, pointed out that as a result of the uncertainty of the Japanese textile situation, it was necessary to shut down his mill completely, as well as two other mills of which he was the greatest user of their production. This forced out of employment between 1000 and 1400 people. (Exhibit 277) ;

(b) Mr. G.B. Gordon claimed that the Japanese situation had resulted in an entire lack of orders for mills at Sherbrooke and Valleyfield, and that it was necessary to stop 600 looms at Sherbrooke and 500 at Valleyfield. (Exhibit 277).

(c) Mr. R.G. Tolmie, of Canadian Cottons Limited, explained that Japanese goods had forced the shutting down of the Milltown mill, and produced cancellations of orders which had been received (Exhibit 277).

To properly consider these questions, one must first study the situation that existed at Sherbrooke prior to giving the order to close the plant.

After September, 1935, rayon fabrics were manufactured in the grey at Sherbrooke and processed and finished at the Magog Print Works of Dominion Textile Company Limited. In the month of December, 1934, rayon fabrics were manufactured in the grey at the Verdun plant of Dominion Textile Company Limited. Exhibit 135 shows the stock situation in December, 1934, January, February and March, 1935, as compared with December, 1935, and

January, February and March, 1936. A comparison of the months of December and January in each year is as follows:

Week Ending	Total Stock on Hand (Expressed in Yards)	
	1934	1935
Dec. 8	1,286,658	1,764,187
15	1,121,574	1,943,594
22	1,231,119	2,040,179
30	947,653	(No figure)
	1935	1936
Jan. 5	1,127,214	2,040,436
12	1,153,779	2,053,903

Exhibit No. 436 is a statement of the production and stocks reported by members of the Silk Association of Canada from December, 1934 to April, 1936. This statement shows that stocks on hand at the end of December, 1934, in all reporting companies, amounted to a total of 2,849,442 yards, while stocks on hand at the end of December, 1935, amounted to 3,926,681 yards. Dominion Textile Company Limited was not a reporting company of the Silk Association of Canada.

It will, therefore, be seen that at the beginning of January, 1936, Dominion Textile Company Limited had on hand over a million yards more than it had on hand at the beginning of the previous year, and the reporting companies of the Silk Association of Canada had on hand about 1, 100,000 yards more than they had at the beginning of the previous year. It is obvious that these companies had been producing rayon goods in 1935 at a much more rapid rate than they were being consumed in the Canadian market.

This being the situation, early in January those interested in the trade were faced with either curtailment of production or lowering of prices to the consumer to get their products into consumption. That Dominion Textile Company Limited realized the situation is apparent from the evidence of J. G. Kershaw, General Superintendent of the Sherbrooke Branch, and the correspondence that passed between the Head Office and the Sherbrooke Branch.

It is also apparent that in addition to the large rayon stocks on hand, additional machinery was being installed at the Magog Print Works, and the Sherbrooke Branch was turning out grey cloth more rapidly than the Magog Print Works could handle it.

On December 30, 1935, H. C. Daniels, Manager of Grey Mill Operations for Dominion Textile Company Limited, wrote to J. G. Kershaw, General Superintendent of the Sherbrooke Branch, as follows:

> "Rayon Division
>
> From now on Sherbrooke Rayon will not run more than 48 hours per week. This has nothing to do with any legislation concerning hours worked, but it is merely, for the time being, that the Print Works will not be able to handle more than this production.
>
> Processing departments will, naturally only run in keeping with the weaving." (Exhibit 2)

Mr. Kershaw testified that in the month of December the Sherbrooke plant had been running 55 hours per week.

On January 13, 1936, Mr. Kershaw had a conversation with Mr. Daniels at the Head Office in Montreal, and Mr. Daniels advised him that it would be necessary to

further curtail production at the Sherbrooke Branch on account of a shortage of machinery at the Magog Print Works. (Page 78).

Up until this time nothing had been said to Mr. Kershaw about Japanese competition (page 79), but Mr. Kershaw was told that they were producing all that the Magog Print Works could process.

On January 14th Mr. Gordon, in company with other representatives of the trade, visited the Ministers in Ottawa.

On January 15th Mr. Gordon wrote to Mr. Kershaw directing him to close the mill on account of Japanese competition. (Exhibits 3 and 4)

The closing of the Rayon Division of the Sherbrooke Branch was either brought about, as the officials of Dominion Textile Company Limited contend, by reason of competition being received from goods imported from Japan; or it was a demonstration of force put on for the purpose of intimidating the Government into taking the action desired by the textile industry in Canada. In that case it was hoped that the force of the publicity such action would receive in the press, and the distress that would be placed on relief officials in caring for the employees who would be thrown out of employment would accomplish the result.

In determining which motive actuated the Company, one may consider the following points :

1. Was the stock situation in the mills such as it would be convenient and financially profitable for the Company to discontinue operations at Sherbrooke at that time ?

2. Was the Company manufacturing rayon fabrics at Sherbrooke of a type that was similar to any Japanese fabrics sold or offered in the Canadian market at that time ?

3. Was the textile industry actually receiving competition from Japanese fabrics in such volume that reasonable minded businessmen would likely be thrown into a panic such as was suggested by the statements that were made by officials of Dominion Textile Company Limited on the closing of the mill ?

4. Was the situation such that a business man of Mr. Gordon's ability and experience could, in the circumstances, fairly state as Mr. Gordon stated to Mr. MacKinnon in Exhibit 149 :

> "I can only conclude that it would be sheer folly to continue producing more rayon goods in the Rayon Division of our Sherbrooke Branch." ?

5. Was the situation such that Mr. Gordon could have honestly believed that if the Government did not take action the whole industry would pass out of the picture, as stated in the above letter ?

6. Was the situation such that Mr. Gordon was justified in the statement made in his letter to Mr. Kershaw :

> "We have made representations in Ottawa in the proper quarters, but, until some action is taken by the Government to stabilize the situation, it is quite impossible for us to book any further orders or to continue production for stock purposes." ?

7. Was the situation such that Mr. Gordon was justified in posting a notice in the mill for the purpose of informing employees of the closing, stating that the

mill would remain closed indefinitely ?

8. Was the situation such as to justify Mr. Gordon in stating to the press, in reference to the closing :

> "Hope to re-open when we can see possibility of manufacturing goods that can be sold. " ?

Mr. Gordon's evidence, in regard to Japanese competition that existed at the time of the interview with the Ministers, shows that on the 4th of January A.B. Fisher & Company had sent out a letter with certain quotations on Japanese goods, (Page 1992). Exhibit 128 shows samples of the goods quoted on by A.B. Fisher & Company. (Page 1993). Exhibit 148 is a letter from A.B. Fisher to L.W. Anders n, dated January 4, 1936, (Page 2073), quoting on certain types of Japanese rayons. The only types quoted on were 27" plain rayon and 27" brocaded tafetta.

It is emphasized the Japanese articles quoted on were 27" wide and, the evidence shows, 9 yards to the pound, while the rayon fabric manufactured at the Sherbrooke Branch is shown by the evidence to be of an entirely different character. There were three styles on the looms at the Sherbrooke Branch when the mill closed - RA1, RA2 and RA3. RA1, was a grey standard 46½" wide, actually finished 37½" wide. RA2 was a rayon taffeta finished 37¾" wide. RA3 was a rayon crepe finished 37¾" wide. The evidence shows that these goods ran approximately 4 yards to the pound. (Exhibit 9, Page 110, etc.)

On April 7th, 1936, Mr. Gordon gave evidence as to the competition that had been experienced from Japanese goods up until that time :

"Q. As far as you are concerned today you have not yet seen a sample of the Japanese goods that competes with your Sherbrooke manufacture ?

A. We have seen many samples of Japanese goods as sold to different markets, and so far as I am concerned I have reason to be quite confident or certain, if you like, that Japan is fully capable of making the exact goods that were quoted on.

BY THE COMMISSIONER: Q. Of making what ?

A. The exact goods that were quoted on, that Japan quoted on.

BY MR. McRUER: Q. If you would just answer my question then we will go on with any explanation you wish to make. I say up to today you have not seen any Japanese goods in the Canadian market that is of the same texture, the same specifications, or is the same article as manufactured at Sherbrooke ?

A. I have not seen that myself. There may be such in the country; I don't know.

Q. I would think with the interest you have in the matter if they were to be had you would have seen them by now.

A. I don't know that they would have been available to me. I noticed in your list of importations there are certain crepes that may have been samples. I have not seen those samples. There is 250 pounds, was it ? I would be very glad to see them.

Q. All I am talking about, Mr. Gordon, is that you have not seen them ?

A. No.

Q. You know of nobody in the Dominion Textile that has, up to today ?

A. Yes, I think that is a proper statement. I don't know at the moment --

Q. Well, --

A. Let me answer; I don't know at the moment whether any of our salesmen in any of our sales offices have actually seen the types of goods as manufactured at Sherbrooke represented by Japanese samples or Japanese goods.

Q. What evidence have you got right now of any flooding of the Canadian market with any goods, that is, rayon goods similar to the ones manufactured at Sherbrooke ?

A. I am not quite clear when you say "flooding", in what sense --

Q. I mean flooding it in the sense that we would say it is going to be disastrous to the Sherbrooke mill ?

A. I think we all know that up to the present time that the imports of Japanese goods have not been very large because there has not been time for them to become so."

Mr. Gordon was invited to give evidence of any orders that had been cancelled on account of Japanese competition. It is fair to say that there is no evidence of any orders for any goods that were manufactured at Sherbrooke having been cancelled on account of purchase of Japanese goods in their stead. It is further fair to say that any evidence that has been submitted to the Commission by any manufacturer in Canada of cancellation of orders on account of Japanese competition is practically negligible.

It is submitted that the evidence is conclusive that there was no Japanese competition existing on the 15th of January, 1936, which would justify any reasonable businessman in Mr. Gordon's position assuming that he would no longer be able to manufacture goods at Sherbrooke that could be sold, and that, it was, therefore, necessary to close the mill indefinitely and throw approximately 500 employees out of employment, to either starve or become objects of public charity.

If this is a proper conclusion, then the real object in closing the mill is apparent. Owing to the condition of the stocks at Sherbrooke, and the shortage of machinery at the Print Works, it was convenient for the Company to close this particular mill at that time, in fact it had been convenient to curtail production for

some days prior to the closing.

The representatives of the industry, having failed to get their demands met immediately at Ottawa, declining to follow the suggestion of the Ministers to bring further proof of the necessity of governmental action, evidently decided that the Government might be intimidated by force of this character. This mill was, therefore, used for the purpose as it would be profitable to the Company under the circumstances and, it was hoped, effective to accomplish the result.

This conclusion is further justified by the fact that Mr. Gordon testified that the Japanese fabrics quoted on in Canada in January were similar to fabrics manufactured by The Montreal Cottons Limited, a company controlled by Dominion Textile Company Limited. A fabric known as Ming Toy made by The Montreal Cottons Limited was somewhat similar in weight and specifications to the Japanese fabrics, but a superior fabric. If the real reason for closing the mill was Japanese competition, why not close the Rayon Branch of the Montreal Cottons Limited, where the nearest competing fabric was manufactured ?

Notwithstanding the persistent contention made on behalf of the Company throughout this inquiry that Japanese competition was seriously menacing their business, the Company, within a few days after the taking of evidence was closed, in announcing a wage increase, added the following words :-

> "A general improvement in the conditions of our business, as reflected in the volume of orders on our books at the present time is the underlying reason for this increase in wages."

It is respectfully submitted that the Commission should find:

1. That Dominion Textile Company Limited was

not justified in closing the Rayon Division of the Sherbrooke Branch on account of Japanese competition.

2. That the action was taken as a deliberate attempt to intimidate the Government in taking tariff action which would be beneficial to the industry, which, as subsequent events have shown, was not justified in the interests of the people of Canada.

3. That the action of the Company in closing the mill for such ulterior purposes shows a heartless disregard by officials of the Company for the welfare and comfort of its employees.

(b) Representations to the Government by Associated Textiles of Canada Limited.

According to Exhibit No.277, J.H.Marx, the President of Associated Textiles of Canada Limited, told the Ministers at the meeting of January 14th.1936, that his customers were not placing orders for their requirements due to the uncertainty of the Japanese textile situation, that his customers claimed that similar fabrics which would replace the goods now being used by them, would come in from Japan so much cheaper that it would pay them as well as force them to use these fabrics, the result of which was the necessity of shutting his mill down completely, as well as two other mills of which he was the greatest user of their production. This forced out of employment between 1,000 and 1,400 people.

The evidence shows that the mill of Associated Textiles of Canada Limited was closed on the 14th. of December, 1935, for two days. (Page 4410 and 4808).

The mill was in operation in January, and continued to increase its production in the months of February, March and April, from 217,597 yards in January to 466,245 yards in the month of April. (Exhibit 260).

Mr. Marx was examined on the 15th of May, 1936. Upon being asked in reference to Japanese competition, he testified as follows:

> " By MR.McRUER: You have not found any Japanese goods that are competing with you?
>
> A. At the present time in Canada?
>
> Q. Yes.
>
> A. No, sir." (Page 4412).

(c) Representations to the Government by Canadian Cottons Limited.

At the interview with the Ministers, Mr. R.G. Tolmie, the General Manager of Canadian Cottons Limited, explained to the Ministers that the Japanese goods had forced the shutting down of the Milltown mill which was making these goods, and produced cancellations of orders which had been received.

On February 25, 1936, Mr. A.O.Dawson, President of Canadian Cottons Limited, wrote to the Hon. C.A.Dunning, as follows: (Exhibits 502 and 483)

> "The Japanese situation on both rayon and cotton fabrics is becoming increasingly serious each day. I shall first refer to Japanese offerings of a somewhat low-grade Taffeta 27" wide. Free offerings of this cloth early in January at ridiculously low prices threw our whole market into an actual panic, as a result of which it has been practically impossible to make sales ever since."
>
> "At the 1st of January, a short time before we stopped production on these two ranges, we had a total stock of 4,937 pieces. The above stock includes about 10% of the total in process or manufacture which has to be woven out, and also includes a few hundred pieces of goods sold for forward delivery which we had to include owing to the fact that cancellations were being received." (Pag 7367)

At page 7372, this memorandum continues as follows:

> "As already stated, the sale of other and better qualities of rayons has been seriously affected by the Japanese situation, and although we kept on our normal full production for some time, I felt upon reviewing the sales and stock situations on February 7th, that regardless of the effect on employment and mill earnings,we could not justify our-

selves in keeping up this production."
(Exhibit 483).

On March 7, 1936, Canadian Cottons Limited wired to the Hon. Mr. Dunning in reference to a report from Vancouver of the landing of certain brocaded rayon taffetas, concluding the wire with these words:

> "Situation simply means gradual strangulation Canadian mills." (Exhibits 504 and 129).

In the months of March, April and May, 1936, Mr. A. O. Dawson wrote several letters to the Hon. J.L. Ilsley and the Hon. C. A. Dunning, endeavouring to secure a fixed valuation on rayon goods imported into Canada from Japan.

On May 22nd. Mr. Dawson wrote to the Hon. Mr. Dunning as follows:

> "Upon my return this morning from a brief business trip to New Brunswick I found awaiting me your kind letter of the 18th instant.
>
> At our St.Croix Mill at Milltown, N.B., I found a rather serious condition in regard to our rayon production. As our warps are woven out I am afraid there is nothing for us to do but to stop the looms because we cannot allow that plant to continue to increase the loss that it made last year. Within a short time I will send you the actual figures.
>
> The thought of closing that mill down gives me very serious concern, not only for sentimental reasons seeing that New Brunswick is my native Province, but also because many of our workers there own their own homes and the closing of our mill would mean that Milltown would become a deserted village. The situation there has become so serious that I may ask you to accord me a personal interview to discuss the matter at a not distant date.
>
> We have just received information that Japanese exports of cotton goods for the last nine months totalled 1,961,000,000 yards. What a huge business these people have developed, and there is no doubt but that the textile industry of the world is facing a very serious condition of affairs due to this competition." (Exhibit 478).

Mr. Dawson was examined before the Commission

on June 16, 1936. He admitted at page 7162 that the Milltown mill was never closed. He was pressed to produce evidence of any cancellations or orders attributable to Japanese competition and was unable to do so. At page 7173, the evidence is as follows :

> "Q. Now, Mr. Dawson, have you any cancellations up to the present time that you can directly attribute to Japanese goods ? A. No, sir. I think if you will refer to that letter again, to one of those letters, you will see that the statement was made that some of the customers said that they held the right to either return these goods or get an allowance on them to bring them down to a lower valuation."

On June 1, 1936, Mr. Dawson wrote to the Hon. Mr. Dunning in reference to the St. Croix Mill, stating that they had an investment of four million dollars in the mill, and using the following words :

> " "It is exceedingly disappointing, therefore, that just as we are about to turn the corner Japanese rayon has started to pour into Canada."

Exhibit No. 732 shows that notwithstanding the declarations made to the Minister of Finance that it was necessary to close the Milltown mill - the only mill in which Canadian Cottons Limited manufactured rayon products - the purchases of rayon yarn from Courtaulds continued unabated and in the first five months of 1936 the purchases of rayon yarn amounted to 239,676 pounds, as against 204,802 pounds for the first five months of the year 1935. In fact, the purchases for the month of March, 1936, reached the second highest point that they had reached for any month during the years 1935 or 1936.

The evidence seems to be conclusive that the statements made in the letters written to members of the Government by officers of Canadian Cottons Limited were unfounded, and, instead of the business of the mills being

strangled, the evidence shows that while they were making threats of closing the mills, they were increasing the purchases of their raw materials.

It is submitted that such conduct on the part of industries enjoying the benefits of tariff protection under the laws of Canada should be condemned in very certain terms.

The conclusion that the business of Canadian Cottons Limited has not been strangled or imperilled by Japanese competition is completely justified by the announcement appearing in the Montreal Gazette on December 4, 1936, one week after the conclusion of the taking of evidence before this Commission. The news item announces an increase of 6% in wages in all the mills of Canadian Cottons Limited. The notice adds :

> "The advance in wages now announced is made possible at this time by the considerably larger volume of orders booked during recent weeks, permitting in turn fuller operations at most of our mills."

That there was no substantial competition being received from Japanese goods was made claer in evidence by the buyers called from the large Canadian departmental stores and wholesale house.

Mr. T.E. Switzer, a buyer for the T. Eaton Company, Limited, Toronto. (p. 6681)

Sydney Stewart Fletcher, a buyer for the Robert Simpson Company, Limited, Toronto. (p. 6708)

Earl P. Surphlis, a buyer for the T. Eaton Company, Limited, Montreal. (p. 6843)

Alexander Farquhar, a buyer for Henry Morgan Company, Montreal. (p. 6866)

William A. Mattinson, a buyer for Greenshields, Hodgson Racine Limited, Montreal. (p.6991)

Joseph Byron Doner, a buyer for the Robert Simpson Company, Montreal. (p. 7099)

All gave evidence before the Commission that the purchases of Japanese rayon fabrics were inconsequential and confined mostly to a brocaded rayon taffeta, which, according to these witnesses, was not made in Canada.

Mr. Gordon gave evidence that a similar taffeta was made by The Montreal Cottons Limited, but it cannot be contended that it was sold in a satisfactory commercial way in Canada, if the large buyers for the departmental stores did not know this, and it is submitted that it cannot be contended that competition with it could imperil the Canadian industry, if the sales were such that none of these buyers had known that it was made in Canada.

It is submitted Exhibit No. 129 is conclusive evidence that the attitude of the industry in January and February 1936 was unwarranted.

This exhibit shows that Dominion Textile Company, Limited, The Montreal Cottons Limited and Canadian Cottons Limited, taken together delivered 520,333 yards of artificial silk fabrics in the month of January 1935 as against 713,418 yards in January 1936, and in the month of February 1935 delivered 710,988 yards as against 983,898 yards for the same month in 1936.

Canadian Celanese Limited, the largest makers of artificial silk fabrics in Canada, delivered in January 1935, 1,391,138 yards as against 1,637,370 yards in the month of January 1936, and in the month of February 1935, 1,212,114 yards as against 1,337,054 yards in the month of February 1936.

The exhibit shows that the makers of artificial silk fabrics listed thereon and who form a large part of the manufacturers of artificial silk fabrics in the Dominion of Canada, delivered 800,262 more yards in the first two months of the year 1936 than they did in the first two months of the year 1935.

Henry Johnson, Managing Director of Courtaulds, Limited, was examined in regard to Japanese competition, and stated as follows :

> "Q. Are you finding any competition from Japan in the Canadian Market ?
>
> A. Not in the Canadian Market at all that I know of.
>
> MR. JONES: There is practically no Japanese importations at all.
>
> THE WITNESS: Why I say that, if I have asked for anything to demonstrate it they are never able to show me anything."

(Exhibit 729, p. 34)

It is submitted that the above references to the evidence, together with a very large volume of evidence not specifically referred to, determines that the textile industry in Canada was not receiving any distressing Japanese competition in the months of January and February 1936, and moreover, that the industry has not yet been able to show any competition from Japanese rayons that could be regarded as menacing the welfare of the Canadian industry.

It rather appears that Mr. Hooper touched the crux of the situation at page 12235, and his evidence has in no sense been contradicted, that is, that the particular fabrics concerning which the mills were complaining of Japanese competition, were fabrics on which the mills had an unusual mark up over the cost of production and that, prior to the modification of the trading relations with

Japan, the mills had enjoyed an abnormal profit on this type of cheaper rayon fabrics, and that it was because the mills had combined to maintain this unusual mark up that the cheaper type of Japanese fabrics could be profitably sold in the Canadian market.

As to cotton fabrics no evidence has been forthcoming to justify any conclusion that the Canadian Cotton manufactures have been receiving any substantial competition from Japanese cotton goods, Exhibits 541 and 885, and the evidence of Mr. Hooper in regard thereto conclusively shows that the cotton fabrics imported into Canada from Japan of a class or kind made in Canada are practically negligible and in fact the tariff protection enjoyed by the Canadian Cotton manufacturer was up to June, 1936, 85% on an ad valorem basis, as against the American rate of 27.7% on an ad valorem basis, Exhibit 536, evidence page 7561 and 7566, or since June, 1936, of 39½%, Exhibit 538.

There has been no suggestion before the Commission that any other branch of the textile industry has been receiving any serious competition from other Japanese textiles.

PART III

TARIFF PROTECTION

1. Introduction

The subject of tariff protection ought to be considered, First, having regard to the interests of the consumers in the Dominion of Canada; Second, the workers employed in the industries affected by the Customs Tariff Laws; and, Third, those who invest capital in the industries so protected.

In considering tariff protection in respect to the textile industry, it is necessary to have regard to the interests of all the people of Canada. Every individual in Canada is a direct consumer of textiles and is directly interested in a monetary way in the customs tariff laws in respect to textiles. There are probably no tariff items in the Customs Tariff Act that so directly affect all the people of Canada as do the tariff items governing importations of different sorts of textiles. Cottons go into the homes and on to the persons of every individual, old or young, rich or poor. The same general statement may be made of woollens, although the quantities used by each individual are more limited. The use of rayons has become general. Hosiey is a necessity of life. Carpets are required in every home, and silks are no longer regarded as a luxury. The consumers of Canada have a common law right to buy the textiles they require at the cheapest price they are offered in any market of the world.

The Government of Canada has seen fit for over 75 years to interfere with this right by legislation in the form of customs laws and the imposition of customs duties on textiles imported into Canada. When the Government imposes a customs duty on an article imported into Canada it does

more than tax the consumer of imported goods by indirect taxation. It gives to the Canadian manufacturer of similar goods a right to impose on the consumers of goods subject to customs duties a private tax for his own benefit. The amount of the tax is the difference between the price the consumer might have purchased like goods in the cheapest markets of the world after having paid transportation costs, and the price the Canadian manufacturer sees fit to charge, limited only by the duty paid value of such goods when imported subject to customs laws plus transportation charges.

It may be true that the Canadian manufacturer may not charge the full price that the customs tariff would permit him to charge. It may be in his own interests, in order to get the maximum volume into consumption at the maximum price, to charge some lesser price than that at which imported goods would sell for in Canada, but the extent of the tariff protection, the state of internal competition and the purchasing power of the consumer are the only regulators of the Canadian producer's power of taxation. If the Canadian producers of an article have a monoply, or have agreements in the nature of combinations in restraint of trade, the Canadian consumers may be taxed to the full limit that the customs tariff laws will permit.

Viewed in this light, Canadian customs tariff laws are a governmental subsidy to Canadian industry. It is true the Government does not directly vote a sum, raised through governmental taxes, to sustain these industries, but it is equally true that the private power of taxation given to the industries by virtue of the customs tariff laws are as effective a subsidy as if voted direct from the public funds, and one over which Parliament has much less control.

When one realizes the true position that protected industries are in, that is, that they are privileged industries - privileged by legislative restraints of trade imposed on the consumers by the Parliament of Canada - the approach to economic problems arising out of protective tariffs becomes more simple.

One would almost think, from the attitude of the protected industries, that customs tariff laws were a right instead of a privilege, and that it was a privilege to the consumers of Canada to purchase from Canadian industries, rather than a right to purchase in the cheapest markets available.

When the Government passes laws restricting trade to certain channels for whatever purpose, it is submitted that, in the interests of the people of Canada as a whole, it is the duty of the Government to be vigilant to see whether or not the privilegesgiven under such restrictive laws have been abused. From this point of view it is my purpose to discuss the evidence that has been presented to the Commission.

The consumer in Canada has been for over 75 years the subject of this private scheme of taxation given to the textile industry. Onhis behalf it is just and fair to closely scrutinize those to whom this privilege has been given, for the purpose of determining what has become of the money paid by the consumer to the manufacturers of textiles in Canada.

The justification for subsidizing Canadian industry by protective tariffs, has always been that it is in the interests of the working man. It is, therefore, proper to consider how far the interests of the working man have dominated the disposition of the funds raised from the

consumer by this private mode of taxation and how far financiers have been the principal beneficiaries of the special privileges given to the textile industry.

My colleague, Mr. Beauregard, will deal with these aspects of the evidence in so far as they affect the workers. Such references as I shall make will be merely for the purpose of illustration and by way of summary.

In order to properly consider these subsidies, it is convenient to determine:

1. What tariff protection the industry now has, or has had during the past years.

2. What measure of profit has been made by those investing in the industry.

3. If the employers of labour shared the privileges granted to them by the Customs tariff laws of Canada, with workers, or have they on the other hand purchased their labour in the same manner that they would purchase raw material in the lowest markets of the Dominion?

The evidence in regard to tariff protection may be considered under the following heads:

1. The extent of the protection.

2. The benefits derived by the investors who have no share in productive efforts.

3. The benefits derived by the producers.

4. Specific reference to the manner in which those engaged in the industry have abused the privileges given to them, with particular references to combinations and monopolies will be dealt with in another part of my brief.

2. Protection Afforded the Textile Industry

Mr. Gordon Hooper, of the Department of Customs, prepared a large number of exhibits designed to show the extent of the protection afforded to the textile industry

by the main tariff items affecting the importation of textiles into Canada.

The exhibits prepared by Mr. Hooper deal with the following textile items :

Cotton Yarns
Cotton Fabrics of different kinds
Artificial Silk Yarns
Artificial Silk Fabrics
Blankets (Woollen and Cotton)
Carpets and Rugs
Woollen and Worsted Fabrics

Cotton Yarns. The following is a table, Exhibit 804, showing the tariff rates applicable to Cotton Yarns from 1907 to 1936 :

SINGLE YARNS

Yarns coarser than 40's

	British Prefer.	Inter-mediate	General
1907:	17½%	22½%	25%
1922:	15%	22½%	25%

Yarns 40's or finer

1907:	Free	Free	Free

17th February 1928

Item 522 -20 hank or less per pound	10%	15%	20%
Item 522a-21 to 40 hanks per pound	12½%	15%	22½%
Item 522b-41 hanks or more per pound	Free	10%	15%

On the 17th September, 1930, the above three classes were grouped together in Item 522 and made dutiable at :

	12½%	15%	22½%
and, per pound	3¢	3½¢	4¢
Oct. 13th, 1932:	12½%	15%	22½%
and, per pound	2¢	3½¢	4¢
May 2nd, 1936:	12½%	15%	22½%
and, per pound	-	3½¢	4¢

There is, however, exception in the case of single yarns imported by manufacturers of knitted goods. The rates under Tariff Item 522a from September 1930 to date are:

12½%	15%	22½%

PLY YARNS

Yarns coarser than 40's		British Prefer.	Inter-mediate	General
1907:		17½%	22½%	25%
1922:		15%	22½%	25%

Yarns 40's or finer				
1907:		Free	Free	Free

On 17th February, 1928, the above two classes were grouped together in Item 522c and made dutiable at

		15%	22½%	25%
17th September 1930 Item 522c		15%	22½%	25%
	and, per pound	3¢	3½¢	4¢
13th October, 1932 Item 522c		15%	22½%	25%
	and, per pound	2¢	3½¢	4¢
2nd May, 1936 Item 522c		15%	22½%	25%
	and, per pound	-	3½¢	4¢

MERCERIZED YARNS

1907:			
40's or finer, single or ply	Free	Free	Free
17th February 1928			
Item 522d-40's or finer, single or ply (restricted to manufacturers)	Free	Free	Free
13th Oct. 1932 to date:	Free	25%	25%

The large part of the trade in Canada is served by yarns manufactured by four large Cotton Companies - Dominion Textile Company Limited, Canadian Cottons Limited, Wabasso Cotton Company Limited and Hamilton Cotton Company Limited. All of these companies spin yarns for their own weaving requirements and sell to other weavers and knitters under a fixed price arrangement between themselves which will be hereinafter specifically referred to. Yarns of a count less than 40 are yarns most commonly used in the manufacture of fabrics made in Canada.

A perusal of Exhibit No. 804 which deals with cotton yarns most generally used in Canada shows that the tariff of customs duties was lowered at different times between

1907 and 1928, and that on the 17th of September, 1930, many drastic increases in these rates of customs duty were put into effect, in some cases by the imposition of specific duties, in addition to the ad valorem duties that had heretofore prevailed, and, in certain cases there were increases in the ad valorem duties as well. Where specific duties were added in 1930, they were 3¢ per pound under the British Preferential Tariff; 3½¢ per pound under the Intermediate Tariff and 4¢ per pound under the General Tariff.

In October, 1932, in order to give effect to the Trade agreements entered into at the Ottawa Conference, the specific duty on cotton yarns entitled to entry under the British Preferential tariff was reduced to 2¢ per pound.

In May, 1936, the specific duty on these goods entitled to entry under the British Preferential Tariff was abolished.

Of course, in dealing with rates of customs duty applicable to goods entitled to entry under the British Preferential Tariff, it is to be remembered that the duties if over 15% are subject to a 10% reduction when the goods are imported into Canada without transhipment from a port of a country enjoying the benefits of the British Preferential Tariff, into a sea, lake or river port of Canada. (Customs Tariff Act, sub-section 1 of Section 5).

The effect of the changes in duties in respect to cotton yarn in 1930 is evidenced from a perusal of Exhibits 819 to 826 inclusive and 857 to 859 inclusive. In perusing these exhibits it will be remembered that the evidence of Mr. Hooper is that the competition for Canadian cotton yarns would ordinarily and naturally come from the United States of America, and not from

Great Britain, this being due to the particular type of yarn made in the United States of America and its particular suitability for the Canadian trade. This evidence has not been contradicted by any of the manufacturers of yarns (Page 11703 and 12026)

The following table, taken from Exhibit No. 820, illustrates the burden placed on the Canadian consumers by the tariff changes of 1930. The table deals with 100 pounds of Warp Yarn, single, No. 10.

No. 10's single, warp yarns
Prepared from Exhibit No. 820

Date	U.S.A. selling price. in Can. Funds	Customs duties (regular, special) & Excise Tax	Per Cent Col.3 of 2.	Tariff	Excise Tax Rate	Currency Exchange Rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
4/6/30	$24.50	$ 4.90	20%	Item 522, Gen. 20%	None	Par
17/10/30	19.50	8.39	43	Item 522, Gen. 22½% and 4¢ per pound	"	"
29/6/32	12.01	7.26	60½	Item 522, Gen. 22½% and 4¢ per pound	3%	14.38%
26/4/33	15.88	8.27	52	Item 522, Gen. 22½% and 4¢ per pound	"	15.47
16/7/34	28.50	11.58	41	Item 522, Gen. 22½% and 4c per pound	"	Par
20/4/36	23.63	7.96	33	Item 522, Int. 15% and 3½c per pound	"	0.56%

A perusal of the Exhibit shows the following:

1. The increases in the duties in September, 1930, amounted to 115% on the example dealt with.

2. The specific duty in 1931 amounted to more than the ad valorem duty of 22½%.

3. In June, 1931, an additional protection was given to the Canadian manufacturer by the imposition of an excise tax of 1% on all goods imported into Canada. This tax was increased in April, 1932, to 3%. (On goods entitled to entry

under the British Preferential Tariff the excise tax was reduced in April, 1934, to $1\frac{1}{2}$%, and abolished in March, 1935.)

4. In June, 1932, the ad valorem, specific and excise duties taken together amounted to 60.5% on an ad valorem basis. In addition to this, Canadian funds were at a discount of 14.38%, giving the Canadian manufacturers this further protection. The result was that 100 pounds of yarn that sold in the United States for $10.50 sold in Canada at $21.00, or $1.73 more than the duty paid value in Canada, no doubt accounted for by allowance for transportation charges.

It is quite true that Exhibit No. 820 shows that prices increased in the United States of America during 1933. This, it was explained, was due to the adoption of the N.R.A. and the A.A.A. in the United States of America. With a processing tax and a vastly different scale of wages and hours of labour in the industry to those prevailing in Canada, the result was that by August, 1933, 100 pounds of yarn sold at $30.50 in the United States of America and $28.00 in Canada.

It will, therefore, be apparent that no customs duties were necessary to protect the Canadian manufacturer as between Canada and the United States of America in respect to cotton yarns at this time. It is, however, interesting to note from a study of Exhibit 820 that while prices moved up in the United States of America, due to the adoption of higher rates of wages and shorter hours of labour, the prices in Canada moved up at the same time, the increase in 1933 being from $24.00 in April to $30.00 in July, with no corresponding increase in rates of wages or decrease in hours of labour; in fact the reverse

occurred, that is, without any increase in hours of labour, the rates of wages were reduced by 10% in April, 1933.

Exhibit 821, is a table prepared by Mr. Hooper in respect to the same yarn as dealt with in Exhibit 820. The table is designed to show the comparison between the mill spread in the Canadian and the mill spread in the American mills. In addition to this the table shows the American selling prices and Canadian selling prices of yarns, raw cotton prices, the cost of raw cotton to the Canadian manufacturer, and a cotton waste factor.

The following extracts from the exhibit illustrate the variations in mill spreads in the Canadian and American mills during the period covered:

Selling prices and mill spreads, cents per pound
No. 10's single, cotton warp yarns.
Prepared from Exhibit No. 821

Date	Canadian		American	
	Selling Price	Mill Spread	Selling Price	Mill Spread
(1)	(2)	(3)	(4)	(5)
6, Jan. 1930	35.50¢	15.89¢	29.00¢	9.39¢
4, June 1930	31.50	13.21	24.50	6.21
17, Oct. 1930	25.50	13.77	19.50	7.77
1, Aug. 1931	22.50	10.71	15.50	3.83
29, June, 1932	21.00	13.48	10.50	4.12
14, Sept. 1932	24.50	14.99	16.00	7.66
26, Apr. 1933	24.00	13.60	13.75	5.01
11, July 1933	29.00	15.74	25.00	12.75
16, Aug. 1933	28.00	17.12	30.50	* 16.05
16, July 1934	32.00	16.30	28.50	* 8.76
16, Sept. 1935	28.50	15.82	26.50	* 9.75
20, Apr. 1936	29.50	15.47	23.50	9.96

* After deducting 4.5¢ per pound on account of U.S.A. processing tax.

The mill spread is the difference between the cost of the raw cotton after deduction of the waste factor and the selling prices of the finished yarn.

In January, 1930, the Canadian mill spread on yarn selling at 35.5 cents per pound was 15.89 cents. The same yarn was selling in the United States of America at 29 cents per pound, with a mill spread of 9.39 cents.

In August, 1931, this yarn sold in Canada at 22.5 cents per pound; the Canadian mill spread was 10.71 cents; while the yarn sold in the United States of America at 15.5 cents per pound, with a mill spread of 3.83 cents. Or, in other words, at this time the Canadian spinners received more than 2½ times as much for manufacturing a pound of yarn as did the American manufacturers.

In June, 1932, the price in Canada was 21 cents a pound, and the mill spread 13.48 cents a pound, while the price in the United States of America was 10.5 cents a pound, with a mill spread of 4.12 cents per pound. In this instance the Canadian manufacturer received more than three times as much for manufacturing the yarn as did the American manufacturer.

In April, 1933, the selling price in Canada was 24 cents a pound, the mill spread 13.6 cents a pound; while the selling price in the United States of America was 13.75 cents a pound, with a mill spread of 5.1 cents a pound. At this time the Canadian manufacturers decreased their wages; and a perusal of Exhibit 821 shows that from April to August, 1933, there was a steady increase in the mill spread; that is that the Canadian manufacturer, although decreasing the wages paid to his employees, was increasing the return he was getting on the results of the manufacturing process. In these months the mill spread increased from 13.6 cents to 17.12 cents per pound.

Exhibit 821 also shows the very marked change that took place in the United States of America in the same period. Mill spread increased from 5.01 cents in April to 20.55 cents in August of which 4.50 cents was a processing tax. It was explained that this increase was due to the adoption of the N.R.A. and the A.A.A. in the United States of America.

Exhibit 821 is therefore proof of the contention that the Canadian manufacturers in 1933, while reducing the wages to the employees, increased the profit on manufacturing in sympathy with the upward movement of prices in the United States of America due to the adoption of shorter hours of labour and increased wages, together with the imposition of governmental taxes. In other words, the Canadian manufacturers took to themselves the benefits derived from the increased prices in the United States of America which were designed to benefit American employees. Not only this, but instead of the Canadian workmen getting the benefit of these increased prices, the wages were lowered below that which they had been before.

That this observation is a fair conclusion is amply borne out by other exhibits filed by Mr. Hooper, which will be dealt with hereafter.

Exhibit 821 further shows that in April, 1936, with the policies of the N.R.A. still in effect in regard to wages in the United States of America, and the processing tax abolished, the mill spread in the United States of America, amounts to 9.96 cents as against a mill spread in Canada, (where wages are very considerably lower than in the United States of America), amounting to 15.47 cents.

A comparison of Exhibits 820 and 821, and an application of the information contained in Exhibit 1230 (a Table showing the distribution of the sales dollar in Dominion Textile Company Limited) shows the relation the quantum of protection has to the

wages paid in the Canadian mills.

According to Exhibit 821, in June, 1930, the Canadian selling price of yarn was 31.5 cents per pound. According to Exhibit 1230 mill wages were 26.09 percent of the sales dollar; therefore 8.2 cents accounted for the wages in a pound of yarn.

Exhibit 820 shows that in June, 1930, the protection on a pound of yarn amounted to 4.9 cents. In October, 1930, after the increases in tariff, the protection amounted to 8.39 cents on a pound of yarn, while 6.6 cents accounted for the mill wages paid in the fabrication of the pound of yarn. Therefore, the protection given in 1930 amounted to 25 percent more than the whole of the mill wages paid for the fabrication of the yarn.

That the protection was still substantial after the reductions on January 1, 1936, due to the Canada - U.S.A. Trade Agreement is shown by Exhibits 820 and 821.

According to Exhibit 1230 the mill wages amounted to 25.31 percent of the sales dollar. According to Exhibit 821 the selling price of Yarn in April, 1936, was 29.5 cents per pound. 7.4 cents would account for the wages paid in the fabrication of a pound of yarn. Exhibit 820 shows that in April, 1936, the total protection on a pound of yarn imported from the United States amounted to 8.09 cents. It therefore, follows that the protection still afforded the manufacturer of this type of yarn amounts to considerably more than the total wages paid in fabricating the yarn.

It may be suggested that this is not a fair comparison, as the rates of duty on this yarn are lower between Great Britain and Canada than between the United States of America and Canada. In this regard it must be borne in mind that the evidence is that the competing yarn of this character

would come from the United States of America.

Cotton Warp Yarn No. 30's Twisted

Exhibits 822 and 823 deal with this type of yarn in the same manner as Exhibits 820 and 821 deal with the cotton warp yarn no. 10's single.

The following is a table prepared from Exhibit 822:

No. 30's twisted, warp yarns.

Date	U.S.A. selling price in Can. Funds	Customs duties (regular, special) & Excise Tax	Per Cent Col.3 of 2.	Tariff	Excise Tax Rate	Currency Exchange Rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
4/6/30	$34.00	$ 8.50	25%	Item 522c,Gen.25%	None	Par
17/10/30	27.00	10.75	40	Item 522c,Gen.25% and 4¢ per pound	"	"
29/6/32	18.30	9.39	51	Item 522c,Gen.25% and 4¢ per pound	3%	14.38%
26/4/33	23.09	10.76	47	Item 522c,Gen.25% and 4¢ per pound	"	15.47
16/7/34	36.00	14.47	40	Item 522c,Gen.25% and 4¢ per pound	"	Par
20/4/36	30.67	11.63	38	Item 522c,Int.22½% and 3½¢ per pound	"	0.56

Exhibit 822 shows that on September 17, 1930, the increases due to the imposition of four cents a pound specific duty amounted to 59¼ per cent. Again in June, 1931, and in April, 1932, the Canadian manufacturer got the benefit of the excise tax imposed, amounting to One percent and Three percent on the respective dates.

The excise taxes alone ranged from .81 cents per pound to 1.67 cents per pound, which indicates how substantially this tax operated as an additional protection to the Canadian Manufacturer.

The position the Canadian Manufacturer is in now after the reduction due to the U.S.A. - Canada Treaty,

effective 1st January, 1936, as compared with the position he was in prior to the increases in September, 1930, is shown to be as follows:

On 100 pound lot selling in the United States of America at $34.00 in June, 1930, the total duty payable was $8.50 on importation into Canada.

On 100 pound lot selling in the United States of America in April, 1936, at $30.50 the duty payable on importation into Canada would amount to $11.63.

If the selling price in the United States of America on that date was $34.00 the duty payable on entry into Canada would have been $12.50.

Exhibit 823 is a comparison of the mill spreads between Canada and the United States of America on this yarn. This exhibit shows, as did Exhibit 821, that in many instances the mill spread in Canada was more than twice the mill spread in the United States of America.

The following is a table prepared from Exhibit 823:

Selling prices and mill spreads, cents per pound
No. 30's twisted, cotton, warp yarns

Date	Canadian Selling Price	Canadian Mill Spread	American Selling Price	American Mill Spread
(1)	(2)	(3)	(4)	(5)
6,Jan.1930	47.63¢	28.02¢	38.00¢	18.39¢
4,June 1930	43.63	25.34	34.00	15.71
17,Oct.1930	36.25	24.52	27.00	15.27
1,Aug.1931	32.75	20.96	24.00	12.33
29,June 1932	30.75	23.23	16.00	9.62
14,Sept.1932	34.25	24.74	21.00	12.66
26,Apr. 1933	36.00	25.60	20.00	11.26
11,July 1933	41.00	27.74	33.00	20.75
16,Aug. 1933	40.00	29.12	39.00	* 24.55
16,July 1934	44.00	28.30	36.00	* 16.26
16,Sept.1935	38.50	25.82	35.00	* 18.25
20,Apr. 1936	39.50	25.47	30.50	16.96

* After deducting 4.5¢ per pound on account of U.S.A. processing tax.

The Exhibit shows that in the year 1933 when prices were increased in the United States of America due to the anticipated introduction and introduction of the N.R.A. and the A.A.A. mill spreads were also increased in Canada. Between March, 1933, and August, 1933, the mill spread increased in Canada by over 25 percent; while in the same period wages were reduced by 10 percent.

This is again proof of the contention that the manufacturers in Canada were taking advantage of the increases in prices in the United States of America to increase prices in Canada, and at the same time decrease wages, giving the benefit of the opportunities for increased prices provided by the tariff, to the investors, and not to the workers.

The extent of the protection afforded by the tariff and how it compares with the amount of wages paid is again shown by a comparative study of Exhibits 822, 823 and 1230.

Exhibit 823 shows that in June, 1930, the selling price of Canadian yarn was 43.63 cents per pound. Exhibit 1230 shows that the mill wages were 26.09 percent of the sales dollar. The wages on a pound of yarn would amount to 11.4 cents.

Exhibit 821 shows the protection at that time to have amounted to 8.5 cents. In October, 1930, the selling price of Canadian yarn was 36.25 cents. The mill wages would amount to 9.4 cents; the protection to 10.75 cents.

In August, 1933, the selling price of Canadian yarn was 40 cents a pound; the mill wages would amount to 13.9 cents; the protection to 18.42 cents. In April, 1936, the selling price of yarn was 39.5 cents per pound; the mill wages amounted to 10 cents per pound; the protection to 11.8 cents.

It may also be pointed out that in April, 1936, the mill spread in Canada on this type of yarn amounted to 25.47 cents per pound as against 16.96 cents per pound in the United States of America, notwithstanding the fact that in the United States of America the higher wages and shorter hours of labour prevailed.

Exhibit 824 deals with 100 pound lot No. 30's single warp yarns and the following is a table prepared from the Exhibit:

No. 30's single, warp yarns

Date	U.S.A. selling price in Can. Funds	Customs duties (regular, special) & Excise Tax	Per Cent Col.3 of 2.	Tariff	Excise Tax Rate	Currency Exchange Rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
4/6/30	$32.00	$7.20	22½%	Item 522a,Gen.22½%	None	Par
17/10/30	26.00	9.85	38	Item 522a,Gen.22½% and 4¢ per pound	"	"
29/6/32	18.30	8.91	49	Item 522a,Gen.22½% and 4¢ per pound	3%	14.38%
26/4/33	21.94	9.86	45	Item 522a,Gen.22½% and 4¢ per pound	"	15.47
16/7/34	36.50	13.67	37½	Item 522a,Gen.22½% and 4¢ per pound	"	Par
20/7/36	30.67	9.26	30	Item 522a,Int.15% and 3½¢ per pound	"	0.56

The duty payable prior to September, 1930, was 22½ percent. To this a specific duty of four cents a pound was added in September 1930. The increase in this case amounted to 68.37 percent. The excise tax in June, 1931, and April, 1932, further increased the manufacturers' protection as in other cases.

In June, 1932, the excise tax and specific duty on the lot amounted to $4.79 as against the ad valorem duty of $4.12 which was the same ad valorem rate that had prevailed

prior to September, 1930.

Exhibit 824 also shows that the Canadian manufacturer increased prices in 1933 in sympathy with the increased prices in the United States of America due to the American legislation.

Exhibit 824 shows that raw cotton was selling on May 12, 1933, at 8.95 cents per pound. The Canadian selling price of this yarn was 33.5 cents per pound on that date. On August 16, 1930, raw cotton was selling at 8.65 cents per pound, but the Canadian selling price of this yarn was 35.5 cents per pound.

Exhibit 824 further shows that since the Canada - U.S.A. agreement became effective the protection afforded the Canadian manufacturer on a pound of this yarn selling in the United States at 30.5 cents a pound is 9.26 cents as against the 7.2 cents on a pound of yarn selling in the United States of America at 32 cents prior to September, 1930.

Exhibit 825 deals with cotton hosiery yarn No. 30's singles. This is a yarn that may be imported either from Great Britain or from the United States of America for use in Canada.

The following is a table prepared from the Exhibit:

No. 30's single, hosiery yarns

Date	U.S.A. selling price in Can. Funds	Customs duties (regular, Special) & Excise Tax	Per Cent Col.3 of 2.	Tariff	Excise Tax Rate	Currency Exchange Rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
4/6/30	$33.00	$7.43	22½%	Item 522a, Gen. 22½%	None	Par
17/10/30	27.00	6.08	22½	Item 522a, Gen. 22½%	"	"
29/6/32	18.30	4.79	26	Item 522a, Gen. 22½%	3%	14.38%
26/4/33	23.09	6.05	26	Item 522a, Gen. 22½%	"	15.47
16/7/34	35.00	9.17	26	Item 522a, Gen. 22½%	"	Par
20/4/36	30.17	5.57	18½	Item 522a, Int. 15%	"	0.56

Exhibits 825, 826 deal with Canadian and American yarns. Exhibits 857 and 859 deal with similar yarns manufactured in Great Britain. On this yarn prior to Spetember, 1930, the ad valorem duty was 22½ percent. There was no increase in duties in September, 1930; but the excise tax imposed in June, 1931, and April, 1932 applied. On January 1, 1936, the intermediate tariff applied, making the duty 15 per cent.

A perusal of Exhibits 826, 857 and 859 shows in respect of this yarn the Canadian manufacturers increased their prices in 1933 with the rise of prices in the United States of America. The increase in prices is reflected in the increased mill spreads.

Between April and August the mill spread increased in Canada from 20.6 cents to 24.12 cents; and in 1936 it was 19.97 cents as against 16.46 cents in the United States of America, notwithstanding the higher wage levels prevailing there.

ThatCanadian manufacturers were taking advantage of the laws in the United States to increase their prices in Canada without the corresponding benefits inuring to the employees in Canada is shown by a further perusal of Exhibits 857 and 859.

While the Canadian manufacturers were increasing their mill spread in Canada and decreasing wages the British manufacturer was decreasing mill spread.

Exhibit 859 shows that on 30s super hosiery yarn the mill spread decreased in Britain from 8.17 pence in February, 1933, to 7.53 pence in August, 1933.

Exhibit 857 a statement dealing with cotton hosiery yarn No. 30 super, demonstrates the course followed by the Canadian manufacturers. The evidence shows (page 11930),

that the transportation charges, on yarn from England to Canada amount to about 2 cents a pound. A study of this Exhibit indicates that the Canadian manufacturer followed the cost of yarn imported from Great Britain very closely in fixing the prices to the consumers of yarn in Canada. The same is revealed by Exhibit 858, in fact in most cases the Canadian manufacturer's selling price is slightly higher than the laid down cost of imported yarn.

There seems to be no apparent reason why the duties were increased in 1930 on yarns to weavers while there were no increases on the duties on yarns for knitters when imported by manufacturers of knitted goods to be used in their own factories in the manufacture of knitted goods. (See Tariff Item 522a).

The result was that the large manufacturers of yarns who were also weavers were given a virtual monopoly on the cotton yarn business of Canada.

(b) Cotton Fabrics

Exhibit 805 shows the rates of duty on cotton fabrics in the grey, bleached or coloured, which have prevailed at various times since 1907. Exhibit 805 reads as follows :

COTTON FABRICS IN THE GREY

	British Pref.	Intermediate	General
1907:	15%	22½%	25%
1922: - Item No. 521	12½%	22½%	25%
17th Feb. 1928:			
- Item No. 523	12½%	20%	22½%
17th Sept.1930:			
- Item No. 523	17½%	20%	25%
and, per pound	3¢	3½¢	4¢
13th Oct. 1932:			
- Item No. 523	17½%	20%	25%
and, per pound	2¢	3½¢	4¢
2nd May, 1936 :			
- Item No. 523	15%	20%	25%
and, per pound	-	3½¢	4¢

COTTON FABRICS BLEACHED

	British Pref.	Intermediate	General
1907:	17½%	22½%	25%
1922:- Item No. 522	15%	22½%	25%
17th Feb. 1928:			
-Item No. 523a	15%	22½%	25%
1930, 17th Sept.			
- Item 523a	20%	22½%	27½%
and, per pound	3¢	3½¢	4¢
13th Oct. 1932 : Item 523a	20%	22½%	27½%
and, per pound	2¢	3½¢	4¢
2nd May, 1936 : Item 523a	20%	22½%	27½%
and, per pound	-	3½¢	4¢

COTTON FABRICS COLOURED

	British Pref.	Intermediate	General
1907 :	25%	30%	32½%
1922 : Item No. 523	22½%	30%	32½%
Feb. 17th,1928 :			
Item No. 523b	20%	25%	27½%
Item No. 523c Woven fabrics, grey, of cotton, manufactured from yarns of more than one colour:	20%	25%	30%
17th Sept. 1930:Item 523b	22½%	27½%	32½%
and, per pound	3¢	3½¢	4¢
13th Oct. 1932:Item 523b	22½%	27½%	32½%
and, per pound	2¢	3½¢	4¢
2nd May 1936: Item 523b	22½%	27½%	32½%
and, per pound	-	3½¢	4¢

ITEM 523c

October 13th, 1932, -Provided for finer quality cotton fabrics, grey, bleached or coloured, at the following rates	Free	27½%	32½%
and, per pound	-	3½¢	4¢

Cotton Ducks and heavy canvasses suitable for awnings, etc., as well as tire fabrics, not coloured, weighing over 8 oz. per square yard, were treated as follows:

	British Pref.	Intermediate	General
1907:	15%	17½%	30%

Above rates held good until 1928, since which date these cotton ducks have been treated as ordinary cotton fabrics at the rates mentioned in the preceeding table. "

In addition to the changes in rates of duty shown on Exhibit 805, the protection afforded to Canadian manufacturers of cotton piece goods was materially changed from time to time by departmental valuations imposed under different provisions of the Customs law.

1. Memorandum of Law

The following is a memorandum in regard to various provisions of these statutes, together with the amendments thereto since 1928, under which departmental action was taken, which had the effect of increasing the protection to the Canadian manufacturer.

The main provision of the Customs Act under which valuations for duty are made is contained in Section 35, which reads as follows :

> "Whenever any duty ad valorem is imposed on any goods imported into Canada, the value for duty shall be the fair market value thereof, when sold for home consumption, in the principal markets of the country whence and at the time when the same were exported directly to Canada.
>
> 2. In the case of importations of goods the manufacture or produce of a foreign country, the currency of which is substantially depreciated, the value for duty shall not be less than the value that would be placed on similar goods manufactured or produced in Great Britain and

> "imported from that country, if such similar goods are made or produced there.
>
> 3. If similar goods are not made or produced in Great Britain, the value for duty shall not be less than the value of similar goods made or produced in any European country the currency of which is not substantially depreciated.
>
> 4. The Minister may determine the value of such goods, and the value so determined shall, until otherwise provided, be the value upon which the duty on such goods shall be computed and levied under regulations prescribed by the Minister."

This section has been unchanged since 1928.

The market value is further defined by Section 36 which read in 1928 as follows :

> "Such market value shall be the fair market value of such goods, in the usual and ordinary commercial acceptation of the term, and as sold in the ordinary course of trade : Provided that a discount for cash, for duty purposes, shall not exceed two and one half per cent, and shall not be allowed unless it has been actually allowed and deducted by the exporter on the invoice to the importer."

On the 17th September, 1930, Section 36 was repealed, and the following substituted therefor :

> "(1) Such market value shall be the fair market value of such goods in the usual and ordinary commercial acceptation of the term, and as sold in the ordinary course of trade, such value in no case to be lower than the selling price thereof to jobbers or wholesalers generally at the time and place of shipment direct to Canada.
>
> (2) Provided that the value for duty of new or unused goods shall in no case be less than the actual cost of production of similar goods at date of shipment direct to Canada, plus a reasonable advance for selling cost and profit, and the Minister shall be the sole judge of what shall constitute a reasonable advance in the circumstances and his decision thereon shall be final."

~~The protective effect of this change was as follows:~~

~~1. The 2½ per cent cash discount formerly allowed might no longer be allowed for regular duty purposes.~~

2. If the manufacturer of textiles abroad sold to manufacturers at a lower price than to jobbers, the value for duty purposes, regular and special, must not be less than the selling price to jobbers or wholesalers generally.

3. The value for duty on new or unused goods should in no case be less than the actual cost of production of similar goods at the date of shipment to Canada, plus a reasonable advance for selling cost and profit.

4. The Minister was the sole judge of what should constitute a reasonable advance in the circumstances and his decision was final.

Section 1 of Section 36 was repealed on the 3rd July, 1934. The following section was added as Section 36-a.

> "The Governor in Council whenever it is deemed expedient to do so, may order that excise duties and excise tax in whole or in part shall be disregarded in estimating the value for duty of goods of any kind imported into Canada from any specified country, and may vary or rescind such order."

In June, 1936, the following section was substituted for what had been Seb-section 2 of Section 36.

> "Section 36. The value for duty of new or unused goods shall in no case be less than the actual cost of production of similar goods at date of shipment direct to Canada, plus reasonable advance for selling cost or profit, such advance not to be greater than that which in the ordinary course of business under normal conditions of trade is adequate in the case of goods similar to the particular goods under consideration by manufacturers or producers of goods of the same class or kind in the country of export when sold for home consumption."

~~The underlined portion contains the new provisions, the effect of which was to determine the basis on which the reasonable advance for selling cost and profit is to be determined, rather than leave the matter to the sole judgment~~

of the Minister.

In addition to the action that might be taken by the department under the foregoing provisions of the law, action might be taken in certain cases under Section 41 and Section 43 of the Customs Act.

In 1928, Section 41 of the Customs Act read as follows :

"41. Whenever goods are imported into Canada under such circumstances or conditions as render it difficult to determine the value thereof for duty because, -
(a) such goods are not sold for use or consumption in the country of production; or,
(b) a lease of such goods or the right of using the same but not the right of property therein is sold or given; or,
(c) such goods having a royalty imposed thereon, the royalty is uncertain, or is not from other causes a reliable means of estimating the value of the goods; or,
(d) such goods are usually or exclusively sold by or to agents or by subscription; or,
(e) such goods are sold or imported in or under any other unusual or peculiar manner or conditions;
the Minister may determine the value for duty of such goods, and the value so determined shall, until otherwise provided, be the value upon which the duty on such goods shall be computed and levied.

2. The Minister shall be the sole judge as to the existence of all or any of the causes or reasons aforesaid.

This section of the law was not changed until the 22nd of April, 1936, when paragraph (e) of Sub-section 1 was repealed and the following substituted therefor:

"(e) such goods by reason of the fact that the circumstances of the trade render it necessary or desirable are sold under conditions or to a class of purchaser under or to which similar goods are not sold by the exporter for home consumption; or such goods are sold or imported in or under any other unusual or peculiar manner or conditions;".

Fixed Valuations

Prior to September, 1930, Section 43 of the Customs Act applied only to natural products of a class or kind produced in Canada, when imported into Canada. The Section read as follows :

"If at any time it appears to the satisfaction of the Governor in Council on a report from the Minister, that natural products of a class or kind produced in Canada are being imported into Canada, either on sale or on consignment, under such conditions as prejudicially or injuriously to affect the interests of Canadian producers the Governor in Council may, in any case or class of cases, authorize the Minister to value such goods for duty, notwithstanding any other provisions of this Act, and the value so determined shall be held to be the fair market value thereof."

This section was amended in September, 1930 to ~~read as follows~~:

"If at any time it appears to the satisfaction of the Governor in Council on a report from the Minister that goods of any kind are being imported into Canada, either on sale or on consignment, under such conditions as prejudicially or injuriously to affect the interests of Canadian producers or manufacturers, the Governor in Council may authorize the Minister to fix the value for duty of any class or kind of such goods, and notwithstanding any other provisions of this Act, the value so fixed shall be deemed to be the fair market value of such goods."

~~The effect of the change was to~~ make it applicable to goods of any kind instead of natural products.

~~In 1933, this section was amended to read as follows~~ :

"43. (1) If at any time it appears to the satisfaction of the Governor in Council on a report from the Minister that goods of any kind not entitled to entry under the British Preferential Tariff or any lower tariff are being imported into Canada either on sale or on consignment, under such conditions as

> "prejudicially or injuriously to affect the interests of Canadian producers or manufacturers, the Governor in Council may authorize the Minister to fix the value for duty of any class or kind of such goods, and notwithstanding any other provisions of this Act, the value so fixed shall be deemed to be the fair market value of such goods."

new para

~~The effect of the~~ An amendment ~~was to~~ in 1933 limit the provisions of the section to goods not entitled to entry under the British preferential tariff or any lower tariff.

The department ruled that ~~it~~ the amendment did not alter the valuation that had previously been fixed on goods entitled to entry under the British preferential tariff. This ruling was contested before the Tariff Board. The Tariff Board ruled that the department were in error in maintaining fixed valuations on British goods after the amendment to the statute.

The power of the Tariff Board to make this ruling was a matter of reference to the Supreme Court of Canada. The Supreme Court of Canada decided that the Tariff Board had no jurisdiction in the matter. An action was brought by the importer in the Exchequer Court to recover duties overpaid by reason of the fixed valuations maintained. The Exchequer Court decided in favour of the importer in November, 1935, and refunds have since been paid.

In June, 1936, the section was further amended by adding Sub-section 3, which reads as follows :

> "(3) In the case of any value for duty established under the provisions of this section after the first day of January, 1936, any interested person may apply to the Tariff Board by way of appeal therefrom. The Tariff Board shall thereupon conduct a public inquiry and make its finding as to whether, to what extent, and for what period such value is required to prevent the importation of goods into Canada from prejudicially or injuriously affecting the interests of Canadian producers or manufacturers. If no fixed value

"is found by the Tariff Board to be required, or if a lower value is found to be appropriate, the finding of the Tariff Board will become at once effective. If appeal is made to the Tariff Board such value authorized by the Minister shall in default of any finding by the Tariff Board in the meantime cease to have force and effect upon the expiration of three months from the date of any such application to the Tariff Board."

CURRENCY VALUATIONS

Section 55 of the Customs Act reads as follows :

"All invoices of goods shall be made out in the currency of the country whence the goods are imported, or in the currency in which the goods are actually purchased, and shall contain a true statement of the value of such goods; and in computing the value for duty of such currency the rate thereof shall be such as has been ordered and proclaimed from time to time by the Governor in Council who is hereby empowered to make such order.

2. The rate so ordered shall be based upon the actual value of the standard coins or currency of such country as compared with the standard dollar of Canada in so far as such comparative values are known.

3. Whenever the value of a currency has not been proclaimed, or whenever there is no fixed standard value, or whenever from any cause the value for currency has become depreciated or appreciated, there shall be attached to the invoice of the goods imported the certificate of some Consul or Canadian Trade Commissioner resident in such place or country, or the certificate of a bank showing the extent of such depreciation or appreciation or the true value at the time of the exportation of the goods of the currency in which such invoice is made out as compared with the standard dollar of Canada : Provided that the collector may compute the value for duty at the rate of exchange certified by the bank through which the same is drawn as current at the time and place when and whence the goods were exported to Canada.

4. When the currency value is determined, as hereinbefore provided, at the time of entry, either by a Consul or Canadian Trade Commissioner's certificate or by the certificate of a bank, such rate or value shall be final and not open to any readjustment by reason of the subsequent production

"of any certificate not corresponding in rate or value with that adopted.

5. All such invoices shall faithfully exhibit the transaction between the exporter and importer, and contain a true and faithfull statement of the actual price payable for the goods including cartons, cases and coverings of all kinds and all expenses incident to placing the goods in condition, packed ready for shipment to Canada, and no such invoice shall state any discount other than such as has been actually allowed to the importer."

In 1933, the following was added to Section 6 of the Customs Tariff Act :

"(9) (a) Notwithstanding the provisions of any other law, the Governor in Council may, from time to time and as occasion requires, order and direct, subject to such exceptions as may be made, what shall be the rate of exchange fixed for any currency in computing the value for duty of goods imported into Canada from any place or country the currency of which is depreciated, and in case a sum in Canadian currency less than the invoice value of the goods in the currency of the place or country of export, computed at the rate of exchange so ordered, be paid for the goods, the actual selling price of the goods to the importer shall be regarded as less than the fair market value of the goods when sold for home consumption, and the provisions of this section shall apply and special or dumping duty shall apply equal to the difference between the value of the invoice computed at the current rate of exchange or at the average current rate from time to time fixed by order of the Governor in Council, and the value of such invoice, computed at the rate of exchange for duty so ordered as aforesaid, or may be less than such difference as the Governor in Council may from time to time order and direct; "

Special or Dumping Duties

In addition to all other duties and evaluations, Section 6 of the Customs Tariff Act provided, prior to September 22, 1930, for special duties where the selling price to an importer in Canada is less than the fair market value of the same article when sold for home consumption.

The section read as follows prior to 1930:

"6. In the case of articles exported to Canada of a class or kind made or produced in Canada, if the export or actual selling price to an importer in Canada be less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time ot its exportation to Canada, there shall, in addition to the duties otherwise established, be levied, collected and paid on such article, on its importation into Canada, a special duty (or dumping duty) equal to the difference between the said selling price of the article for export and the said fair market value thereof for home consumption; and such special duty (or dumping duty) shall be levied, collected and paid on such article, although it is not otherwise dutiable:

Provided that the said special duty shall not exceed fifteen percent ad valorem in any case; Provided also that the following goods shall be exempt from such special duty : viz:

(a) Goods whereon the duties otherwise established are equal to fifty percent ad valorem;

(b) Goods of a class subject to excise duty in Canada;

(c) Sugar refined in the United Kingdom;

(d) Binder twine or twine for harvest binders mmanufactured from New Zealand hemp, istle or tampico fibre, sisal grass or sunn, or a mixture of any two or more of them, of single ply and measuring not exceeding six hundred feet to the pound.

(2) Excise duties or excise taxes shall be disregarded in estimating the market value of goods for the purposes of special duty when the goods are entitled to entry under the British Preferential Tariff, Intermediate Tariff or any more favourable tariff.

(2A) Customs duties of the United Kingdom shall be disregarded in estimating the market value of goods for the purposes of special duty when the goods are entitled to entry under the Intermediate Tariff or any more favourable tariff and are bottled in bond in the United Kingdom imported direct therefrom.

3. 'Export price' or 'selling price' in this section shall be held to mean and include the exporter's price for the goods, exclusive of all charges thereon after their shipment from the place whence exported directly to Canada.

4. If at any time it appears to the satisfaction of the Governor in Council on a report from the Minister of Customs that the payment of the special duty by this section provided for is being evaded by the shipment of goods on consignment without sale prior to such shipment, the Governor in Council may in any case or class of cases authorize such action as is deemed necessary to collect on such goods or any of them the same special duty as if the goods had been sold to an importer in Canada prior to their shipment to Canada.

5. If the full amount of any special duty of Customs is not paid on goods imported, the Customs entry thereof shall be amended and the deficiency paid upon the demand of the Collector of Customs.

6. The Minister of Customs may make such regulations as are deemed necessary for carrying out the provisions of this section and for its enforcement.

7. Such regulations may provide for the temporary exemption from special duty of any article or class of articles, when it is established to the satisfaction of the Minister of Customs that such articles are not made or sold in Canada in substantial quantities, and offered for sale to all purchasers on equal terms under like conditions having regard to the custom and usage of the trade.

8. Such regulations may also provide for the exemption from special duty of any article when the difference between the fair market value and the selling price thereof to the importer as aforesaid amounts only to a small percentage of its fair market value. 1907, c.11, s.6"

On September 22, 1930, the section was repealed, and the following substituted therefor :

"6 (1) In the case of articles exported to Canada of a class or kind made or produced in Canada, if the export or actual selling price to an importer in Canada is less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time ot its exportation to Canada, or is less than the fair market value or value for duty thereof as determined under the provisions of section thirty-six of the Customs Act, or is less than the fair market value thereof as fixed by the Governor in Council under the provisions

"of section thirty-seven of the Customs Act, or is less than the value for duty thereof as determined by the Minister under the provisions of paragraphs (a) and (c) of section forty-one of the Customs Act, or is less than the fair market value thereof as fixed by the Minister under the provisions of section forty-three of the Customs Act, there shall, in addition to the duties otherwise established, be levied, collected and paid on such article, on its importation into Canada, a special or dumping duty, equal to the difference between the said selling price of the article for export, and the said fair market value thereof or value for duty thereof; and such special or dumping duty shall be levied, collected and paid on such article although it is not otherwise dutiable.

Provided that the said special duty shall not exceed fifty per cent ad valorem in any case, and the following goods shall be exempt from such special duty, viz., -

Goods of a class subject to duty under the Excise Act.

Provided, notwithstanding, that on importations from Australia, under the Australian Trade Agreement Act, 1925, the said special duty shall not exceed fifteen percent ad valorem in any case.

Notwithstanding anything in this Act contained the levying and collection heretofore of special or dumping duty in cases where the fair market value of goods was determined by the Minister, acting or purporting to act under the provisions of section forty-seven A of the Customs Act, as enacted by section three of chapter eighteen of the Statutes of 1922 (Section forty-three of the Customs Act, R.S. 1927) is hereby ratified and confirmed.

(2) Excise duties or excise taxes shall be disregarded in estimating the market value of goods for the purposes of special duty when the goods are entitled to entry under the British Preferential Tariff, Intermediate Tariff, or any tariff more favourable than the General Tariff.

(3) Customs duties of the United Kingdom shall be disregarded in estimating the market value of wines for the purposes of special duty when the same are entitled to entry under the Intermediate Tariff or any tariff more favourable

"than the General Tariff and are bottled in bond in the United Kingdom and imported direct therefrom.

(4) "Export price" or "selling price" in this section shall be held to mean and include the exporter's price for the goods, exclusive of all charges thereon after their shipment from the place whence exported directly to Canada.

(5) If at any time it appears to the satisfaction of the Minister that the payment of the special duty by this section provided for its being evaded by the shipment of goods on consignment without sale prior to such shipment, the Minister may in any case or class of cases authorize such action as is deemed necessary to collect on such goods or any of them the same special duty as if the goods had been sold to an importer in Canada prior to their shipment to Canada.

(6) If at any time it appears to the satisfaction of the Minister that any person owning or controlling or interested in a business in Canada and also in any other country, or any person carrying on a business in any other country and owning or controlling or, interested in a business operating in Canada, and by reason thereof is enabled to import goods for further manufacture or assembling or for resale, and while complying with the legal requirements on importation disposes of such imported goods, whether in the form as imported or as further processed, assembled or manufactured, at prices below the duty paid value thereof as entered at Customs plus or including all charges upon the goods after shipment from the place whence exported directly to Canada, including sales, distribution and advertising costs, and plus, if any, the cost of processing, assembling or further manufacturing in Canada, the Minister may declare that goods of such class or kind were and are on importation subject to an additional special or dumping duty not exceeding fifty per cent and authorize such action as is deemed necessary for the collection thereof.

(7) If the full amount of any special duty of Customs as herein provided has not been paid on goods imported, the Customs entry thereof shall be amended and the deficiency paid upon the demand of the Collector.

(8) The Minister may make such regulations as are deemed necessary for carrying out the provisions of this section and for its enforcement.

In 1931 Sections 2 to 18 of the Customs Tariff Act were repealed, but Section 6 was reenacted in the identical form it had been at the time of the repeal.

In 1933 Section 6 was amended by adding subsection 9, which reads as follows:

> (9) "Notwithstanding the provisions of any other law, the Governor in council may from time to time and as occasion requires order and direct, subject to such exceptions as may be made, what shall be the rate of exchange fixed for any currency in computing the value for duty of goods imported into Canada from any place or country the currency of which is depreciated, and in case a sum in Canadian currency less than the invoice value of the goods in the currency of the place or country of export, computed at the rate of exchange so ordered, be paid for the goods, the actual selling price of the goods to the importer shall be regarded as less than the fair market value of the goods when sold for home consumption, and the provisions of this Section shall apply and special or dumping duty shall apply equal to the difference between the value of the invoice computed at the current rate of exchange or at the average current rate from time to time fixed by order o of the Governor in Council and the value of such invoice, computed at the rate of exchange for duty so ordered as aforesaid, or may be less than such difference as the Governor in Council may from time to time order and direct; and the Governor in Council may order and direct that in all cases of sales or consignments of goods imported into Canada, where the importer owns, controls or is interested in the business of the exporter, or the exporter owns, controls or is interested in the business of the importer, or the importer and exporter operate under a controlling or holding company, notwithstanding the expressed terms of the sale or consignment, the transaction shall be regarded as a sale and the actual selling price to the purchaser in Canada shall be taken to be the value of the goods in the currency of the place or country of export converted into Canadian currency at the current rate of exhhange, or at the average current rate from time to time

fixed by order of the Governor in Council, and shall be regarded as less than the fair market value of the goods when sold for home consumption and the provisions of this section shall apply and special or dumping duty shall be deemed to apply equal to the difference between the value of the invoice computed at the current rate of exchange or at the average current rate from time to time fixed by order of the Governor in Council, and the value of such invoice computed at the rate of exchange for duty so ordered as aforesaid, or may be less than such difference as the Governor in Council may from time to time order and direct.

(b) Any order in council made hereunder may be varied, extended or revoked at any time by the Governor in Council.

(c) This subsection shall be deemed to have had effect from and after the first day of September, 1931."

In July, 1934, the section was amended by inserting the following subsection 2A:

"The Governor in Council, whenever it is deemed expedient to do so, may order that excise duties or excise taxes in whole or in part shall be disregarded in estimating the market value for the purpose of special duty of goods of any kind imported into Canada from any specified country, when the same are entitled to entry under the General Tariff, and may vary or rescind such order."

In 1936 subsection 1 of section 6 was repealed, and the following substituted therefor :

"6 (1) In the case of articles exported to Canada of a class or kind made or produced in Canada, if the export or actual selling price to an importer in Canada is less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time of its exportation to Canada, or is less than the fair market value or value for duty thereof as determined under the provisions of section thirty-sic of the Customs Act or is less than the value for duty thereof as determined by the Minister under the provisions of

"paragraphs (a) and (c) of section forty-one of the Customs Act, or is less than the fair market value thereof as fixed under the provisions of section forty-three of the Customs Act, there shall, in addition to the duties otherwise established, be levied, collected and paid on such article, on its importation into Canada, a special or dumping duty, equal to the difference between the said selling price of the article for export, and the said fair market value thereof or value for duty thereof; and such special or dumping duty shall be levied, collected and paid on such article although it is not otherwise dutiable.

Provided that when it is established that any articles though of a class or kind made or produced in Canada are not offered for sale to the ordinary agencies of wholesale or retail distribution or are not offered to all purchasers on equal terms under like conditions, having regard to the custom and usage of trade, such articles may be exempted from special or dumping duty.

Provided that the said special duty shall not exceed fifty per centum ad valorem in any case, and the following goods shall be exempt from such special duty, namely :-

Goods of a class subject to duty under the Excise Act.

~~In the same year~~ the following subsection was added ~~as Subsection 10~~:

"(10) For the purposes of this Act articles shall not be deemed to be of a class or kind made or produced in Canada unless so made or produced in substantial quantities; and the Governor in Council may by order in Council provide that such quantities, to be substantial, shall be sufficient to supply a certain percentage of the normal Canadian consumption and may in such order fix such percentage."

On July 2, 1936, an Order in Council was passed under the provisions of the above subsection (10), as follows:

"It is hereby ordered that articles shall not be deemed to be of a class or kind made or produced in Canada unless a quantity sufficient to supply 10 percentum of the normal Canadian consumption of such article, is so made or produced."

2. Practical Application of the Law.

(a) Cotton Fabrics in the Grey.

Exhibits 829 to 835 are schedules dealing with selling prices in the United States, duties payable on importation into Canada, Canadian selling prices and Canadian and American mill margins on certain cotton grey goods, unbleached.

The following is a table prepared from Exhibit 829.

40" sheeting, 48x48, 2.85 yards per pound, grey goods.

Date	U.S.A. selling prices in Can. Funds	Customs duties (regular, special) & Excise Tax	Per Cent Col.3 of 2	Tariff	Excise Tax Rate	Currency Exchange Rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
10/9/30	$76.25	$17.16	22½%	No.523, Gen. 22½%	None	Par
10/30	77.50	33.41	43	No.523, Gen. 25% & 4¢ per pound	"	"
6/5/32	51.66	49.08	95	No.523, Gen. 25% & 4¢ per pound	3%	11.70%
5/5/33	62.50	50.71	81	No.523, Gen. 25% & 4¢ per pound	"	13.63%
5/5/34	95.00	41.76	44	No.523, Gen. 25% & 4¢ per pound	"	Par
7/4/36	79.10	35.39	45	No.523, Int. 20% & 3½¢ per pound	"	0.45%

The above exhibit shows that in September, 1930, when the ad valorem duty was increased from 22½ percent to 25 percent and 4 cents per pound specific duty added, the increase in the duties payable amounted to 91 percent, according to selling prices as of that date.

On June 2, 1931, the Canadian manufacturers got the benefit of a further protection of one percent excise tax, and on April 7, 1932, this was increased to 3 percent. It will be remembered that the excise tax on goods imported into Canada was at this time 3 percent of the duty paid

value of the goods, and not 3 percent of the selling price to the purchaser in Canada.

Something of the effect of this may be seen by an examination of the item under date of May 6, 1932, on Exhibit 829. The ad valorem and specific duties on that item amounted to $30.79; the excise duty to $2.93. Of this, 92 cents was payable as an excise tax on duties that were levied, (and not on the price of the goods.)

On the item under August 5, 1933, the duties amounted to $45.07, and the excise tax to $5.08, $1.35 of which was levied on the duties payable on the goods on importation into Canada, as distinct from the purchase price of the goods.

In November, 1931, the currency exchange rate between Canada and the United States amounted to 10.78 percent. By December of the same year it was up to 20.5 percent. In April of 1932 it was at 10.63 percent, and from then until November, 1933, it varied, reaching a high of 20.63 percent in April 1933. This gave an additional protection to the Canadian manufacturer. However, on April 7, 1932, acting under the provisions of section 36(2) of the Customs Act hereinbefore dealt with, the department appraised cotton fabrics as set out in Exhibit 827. This appraisal applied to fabrics dealt with in Exhibits 829-846 incl. The effect of this appraisal, although made under section 36(2) as distinct from section 43 of the Customs Act, was to fix minimum values for duty purposes on cotton fabrics imported from the United States. The modus operandi pursued in arriving at the valuations set out in Exhibit 827 was for the customs officials to determine the costs of production in the United States, and what in their opinion was the cost of production and a reasonable addition for selling cost and profit.

The effect of this was that one uniform price on similar goods was taken applicable to goods wherever produced, and by whom produced. For instance, the same cost of production and advance for selling cost and profit was applied to goods produced in the southern states as to goods produced in the northern states, when imported into Canada. It is also pointed out that the schedule attached to Exhibit 827 did not cover all ranges of cotton goods, and it was left to the customs appraisers to appraise other constructions "proportionately". The schedule of prices was predicated upon the New York price of raw cotton of 7 cents per pound. For each one cent per pound variation from this raw cotton value a correction of 1.2 cents per pound was to be made of the total weight of the goods appraised. The practical effect on the customs duties levied on importations into Canada is seen by a study of Exhibit 829.

Up to April 6, 1932, the value in Canadian funds - that is, the United States selling value plus currency exchange - was the value for duty, each column being the same.

Commencing at April 7, 1932, on page 2 of the Exhibit, it will be seen that the value in Canadian funds is considerably less than the value for duty. For instance, on the item of May 6 the value in Canadian funds was $51.66; the value for duty was $67.02, a difference of $15.36. On the item of June 4 the value in Canadian funds was $48.53; the value for duty was $68.51, a difference of $19.98.

On the item of July 7, the value in Canadian funds was $45.58, the value for duty $68.36, a difference of $22.78.

Not only did this special valuation increase the regular ad valorem duty and excise tax, but it operated to made the special dumping duty applicable under the provisions of section 6 of the Customs Tariff Act. Under the provisions of section 36(2) of the Customs Act hereinbefore referred to, the special valuation put on the goods in the manner described herein is to be taken as the fair market value for special duty purposes. Therefore, the selling price of the goods to the purchaser in Canada, in the country of export being less than the valuation so established, section 6 of the Customs Tariff Act becomes operative and special duty is applied.

By way of illustration, on the first three items shown on page 2 of Exhibit 829, following April 7, 1933, the following table shows the increase in duty in respect to those items, due to the provisions of Exhibit 827.

Date	Increase on Regular Duty and Excise Duty	Special Duty	Total
May 6	4.41	15.36	19.77
June 4	5.75	19.98	25.73
July 7	6.54	22.78	29.32

In addition to this additional protection at the time the appraisals shown in Exhibit 827 were put into effect, the Canadian manufacturer had the advantage of the difference in value between Canadian funds and American funds. On the three items above mentioned this amounted to the following :

May 6, 1932, 5.41

June 4, 1932, 6.03

July 7, 1932, 5.48

The net result is that in addition to the regular ad ad valorem duty of 25 percent, a specific duty of 4 cents

per pound, and the excise duty of 3 percent, leviable in April 1932, the Canadian manufacturer had an additional protection on the above items as follows:

Date	Selling Price in U. S.	Additional protection over regular customs tariff schedule.
May 6, 1932	46.25	25.18
June 4, 1932	42.50	31.76
July 7, 1932	40.00	34.90

The above three items are taken as an illustration only. A perusal of Exhibit 829 will show that in other cases the additional protection above referred to was very much greater than in any of the three dates dealt with above.

For example, see April 5, 1933, when an article that sold in the United States for $43.75 cost, duty and excise paid, in Canada, $107.65.

On September 13, 1932, Exhibit 827 was amplified by the issue of Exhibit 828, with more detailed instructions. These instructions to appraisers remained in effect in respect of cotton goods until June, 1933, when the rises in price in the United States of America due to the anticipation of the NRA and AAA eliminated the differential between American selling prices and the values established by the department.

It appears that although valuations fixed as in Exhibit 828 in respect to textiles are no longer in effect, there are valuations in respect to other goods still in effect, which have been similarly determined.

It is submitted that the imposition of customs duties by means of special appraisals, such as Exhibits 827 and 828, is not in the interests of the public of Canada, in that the public does not know what duties are actually

payable on goods imported into Canada.

The Customs Tariff Act, Schedule A, expressly fixes special rates of duty - in the case just dealt with, 25 percent ad valorem, and 4 cents per pound. In addition to this there is an excise tax, which is clear, but what is not clear is that by a special appraisal made by the department with submission to the Governor in Council, duties are leviable on a valuation of the goods so fixed which increases the amount of the regular ad valorem duty and the excise duty, and imposes a dumping duty by artificial process, so that the regular duties may be very drastically increased in a manner which is not clear to parliament, may not be clear even to members of the government, and certainly not clear to the consuming public.

For instance, on the first item dealt with above, the importation of May 6, 1932, the special increase in duty amounted to $19.77, as against the regular duty and excise tax payable of $29.31, or in other words by this special valuation the duties on this fabric were increased on that date approximately 70 per cent. This is without any consideration of the special protection that was afforded by the differential in value of currency.

Exhibit 829 shows that since the Canada-United States agreement became effective on January 1, 1936, the ad valorem duty was reduced from 25 percent to 20 percent, and the specific duty from 4 cents to 3½ cents per pound. The net result of this is illustrated by the item under date of January 7, 1936, on page 3 of Exhibit 829. On the piece costing $92.50 in the United States of America, $39.34 is payable in customs duties and excise tax, being at an ad valorem rate of 42 percent, as against 22½ percent payable prior to September, 1930.

Exhibit 830 is a statement of Canadian and American mill spreads on the fabric dealt with in Exhibit 829. This exhibit confirms what was said in respect to cotton yarns, in regard to the increase in mill spread in Canada, at the time that the increase in spread took place in the United States of America, due to the adoption of the NRA and AAA.

The following is a table prepared from Exhibit 830.

Selling prices and mill spreads, cents per pound.

40" sheeting, 48x48, 2.85 yards per pound, grey goods.

Date	CANADIAN		AMERICAN	
	Selling Price	Mill Spread	Selling Price	Mill Spread
(1)	(2)	(3)	(4)	(5)
	¢	¢	¢	¢
9/6/30	32.78	14.54	25.31	6.29
24/11/30	29.93	16.91	22.09	9.13
15/5/31	27.08	15.68	17.10	5.10
11/4/32	24.23	15.67	14.25	6.93
22/6/32	23.88	16.34	12.11	5.69
15/9/32	25.65	15.77	17.81	7.01
27/1/33	24.94	15.95	12.11	4.97
2/5/33	27.79	16.16	15.68	5.42
3/7/33	31.35	17.33	26.65	13.35
10/8/33	31.35	18.65	33.14	*16.48
7/11/33	29.93	18.11	25.31	* 9.25
3/8/34	35.63	19.44	28.50	* 8.06
10/4/35	31.35	17.08	25.65	* 7.49
11/2/36	32.78	18.20	23.51	9.59

* After deducting 4.60¢ per pound on account of U.S.A. processing tax.

It will be noted that on January 27, 1933, the mill spread in Canada on the article in question was 15.95 cents per pound. By August 10, 1933, this had risen to 18.65

cents per pound, while it was accompanied with a decrease in wage rates.

In answer to the contention that the Canadian manufacturers did not increase their prices, except when forced to do so by the increase in prices of raw materials, it may be said that the mill spread in Canada substantially increased after the adoption of the new Customs Tariff duties in September, 1930. In June, 1930, the Canadian mill spread was 14.54 cents per pound. In November, 1930, it had increased to 16.91 cents, and at no time thereafter, to the present date, has the mill spread been as low as it was in June,1930.

In view of the maintenance of a mill spread which varied from 1, 2, 3, 4 and as high as 5 cents per pound more than it was in 1930, it is hard to understand how it can be maintained that the Canadian mills did not take advantage of the Customs Tariff duties to increase the burden on the consumer.

In view of the fact that the Canadian mills were operating under a substantially reduced wage rate between 1933 and 1936, and that the American mills were operating under very substantially increased wage rates, it is interesting to note the corresponding mill spreads in Canada and the United States of America as disclosed in Exhibit 830. Throughout the years 1934, 1935 and 1936, mill spreads in Canada were very substantially above the mill spreads in the United States of America.

On the item of February 11, 1936, it is almost twice the mill spread in the United States of America. In respect to the article dealt with in this exhibit there seems to be no other conclusion than that the Canadian manufacturer was taking advantage of the Customs Tariff duties

to increase the profit to the manufacturer at the expense of the consumer, while giving no benefit of the increased protection to the workmen.

Exhibit 831 deals with a thousand-yard piece of a different type of grey goods from Exhibit 829. What has been said in respect to Exhibit 829 may be said with equal force in regard to Exhibit 831. The fabric dealt with being a lighter fabric, the specific duty works out to be lower when converted to an ad valorem basis, on account of the difference in weight, and the price per pound.

The following is a table prepared from Exhibit 831.

44" print cloth, 48x48, 6.40 yards per pound, grey goods

Date (1)	U.S.A. Selling Prices in Can. Funds (2)	Customs Duties (regular, special) & Excise Tax (3)	Per Cent Col.3 of 2. (4)	Tariff (5)	Excise Tax Rate (6)	Currency Exchange Rate (7)
10/9/30	$45.00	$10.13	22½%	Item 523,Gen.22½%	None	Par
7/10/30	47.50	18.13	38	Item 523,Gen.25% and 4¢ per pound	"	"
6/5/32	34.91	29.96	86	Item 523,Gen.25% and 4¢ per pound	3%	11.70%
5/5/33	42.61	41.55	98	Item 523,Gen.25% and 4¢ per pound	"	13.63
5/5/34	60.00	23.69	40	Item 523,Gen.25% and 4¢ per pound	"	Par
6/4/36	51.48	17.79	34	Item 523.Int.20% and 3½¢ per pound	"	0.45%

The appraisal bulletins Exhibits 827 and 828 had the same effect in a relative degree as in the former case.

It will be noted that the present duty and excise payable as shown on page 3 of Exhibit 831 in regard to the item under date April 7, 1936, amounts to $17.79, on an article costing in the United States of America,$51.25, or on an ad valorem basis of 35 percent, as against 22½ percent prior to the changes in 1930.

Exhibit 832 deals with a thousand-yard piece of grey goods, four yards to the pound. The increase in duty in 1930 amounted to 79.8 percent. All that has been said in regard to the previous exhibits applies to this one. The duties and excise taxes on an ad valorem basis at present in effect, as illustrated by the item under date April 7, 1936, page 3 of the Exhibit. These work out at the rate of 37 percent.

(b) Bleached Cotton Fabrics:

The example dealt with in Exhibit 836 commences in 1932. Prior to September, 1930, the rate of Customs duty was 25% ad valorem. The duties payable had the previous rate of duty been in force would have been $59.75. The duties payable, according to this exhibit, on June 15, 1932, were $104.30, this being an increase of 75% over what would have been paid had the rate of duty of 25% been maintained.

(c) Piece Dyed and Printed Fabric

Exhibits 839,840, 843, 844, 845 and 846, deal with different examples of fabrics dutiable under Tariff Item 523b. What has been said heretofore in regard to the exhibits dealing with other cotton fabrics in reference to increased tariff protection by increase in the rate of customs duty and by special valuation, may be said with equal force in regard to the fabrics dealt with in these exhibits.

(d) Yarn Dyed Fabrics

Exhibit 849 deals with a thousand-yard piece of denim, white back, 2.20 yards per pound, yarn dyed. The prevailing rate of duty prior to 1930 was 30% ad valorem, the value for

duty being subject to $2\frac{1}{2}\%$ cash discount. In September,1930, the tariff of customs duty was increased to $32\frac{1}{2}\%$ ad valorem, with a specific duty of 4 cents a pound. This amounted to an increase of 60%. On the 14th of April, 1932, acting under the provisons of Section 36, Sub-section 2, of the Customs Act, the Department appraised denims and chambrays, for duty purposes, on the following basis :

"1st Goods weighing 2.50 square yards per pound, or heavier ......$22\frac{3}{4}$¢ per pound

2nd Goods weighing lighter than 2.50 square yards per pound, but not lighter than 4.00 square yards per pound ....33¢ per pound

3rd Goods weighing lighter than 4.00 square yards per pound ......36¢ per pound."

(Ex. 848)

The above values were predicated on a price of raw spot cotton in New York of 7¢ per pound, and for each 1¢ per pound variation from the raw cotton price, a correction of 1.2¢ per pound on the fabric appraised was to be applied.

The first item, after the coming in force of Exhibit 842, dealt with in Exhibit 849, under date of August 3, 1932, shows an increase in the duties and excise tax that would be collected due to this increased valuation amounting to $28.24. This involved an additional ad valorem duty, an additional excise tax and a special dumping duty due to the effect of the appraisal under Section 36, Sub-section 2.

(e) Cotton Flannelette:

Exhibit 855 deals with a thousand-yard piece of flannelette, 27" wide, 6 yards per pound, bleached. The tariff of customs duty on this fabric prior to 1930 was 25%, the value for duty being subject to $2\frac{1}{2}\%$ discount. In September 1930, the rate of customs duty was increased to $27\frac{1}{2}\%$ ad valorem

and 4 cents a pound specific duty with no cash discount allowed, an increase of 50% in addition to the excise taxes levied.

On the 12th of December, 1931, the Minister of National Revenue, acting under Section 43 of the Customs Act, fixed the value for duty on certain cotton and artificial silk fabrics, as set out in Exhibit 847. The minimum values fixed were as follows:

	Canadian Dollars
"Tweeds, Suiting, Pantings, and similar Fabrics, wholly of Cotton, weighing 6 oz. or more per square yard	.25¢ per pound
Flannalettes, Robe Cloths, Blanketing, Blanket Cloths and similar napped Fabrics, wholly of cotton, weighing 6 oz.or more per square yard	.40¢ per pound
Flannalettes, Robe Cloths, Blanketing, Blanket Cloths and similar napped Fabrics, wholly of cotton, weighing less than 6 oz. per square yard	.44¢ per pound
Woven Fabrics, composed wholly of Artificial Silk, when dutiable under Tariff Item 561	1.25 per pound

The foregoing values in Canadian Currency represent the values f.o.b. mill for regular duty on imporations from all foreign countries, whether their currency is appreciated or depreciated.

For special duty purposes the selling price in any foreign country is to be converted to Canadian dollars at the exchan- rate on date of shipment and the amount of special duty payable will be the difference between the values shown above and the selling price so converted.

The provisions of Section 6 of the Customs Tariff Act to apply, and importations of such fabrics shipped on consignment without sale prior to shipment, so as to evade the payment of special duty, will be subject to the same special duty as if the goods had been sold prior to shipment.

The foregoing values not to apply to importations bona fide purchased on or before the 12th day of December, 1931, and imported and entered at Customs on or before the 12th day of January 1932."

The value on the fabric referred to in Exhibit 855 was fixed at 44 cents a pound, Canadian funds.

The first item dealt with in Exhibit 855 after the Appraisers' Bulletin, Exhibit 847, became effective is under date of February 17, 1932. The thousand-yard piece would cost in the United States of America at that time $60.11 in Canadian funds. This works out to be 36 cents a pound. The value fixed under Exhibit 847 is 44 cents a pound, or an increase of 22% notwithstanding the fact that the currency exchange rate at that time was 14.49%. The increase in duty due to this special valuation amounted to $17.04, or 150% increase.

In addition to the ad valorem duty, the specific duty, the excise taxes, the fixed valuation and the special dumping duty resultant therefrom, the Canadian importer was at the additional disadvantage of having to purchase in the United States of America with an adverse exchange rate of 14.49%. The result of all this was that the article which sold in the United States of America on February 17, 1932, for $52.50 would cost to lay down in Canada, without any transportation charges, $101.17. The same article sold at a list price in Canada of $93.75, which gives some measure of the burden on the consumer during the depth of the depression.

The fixed valuations referred to in Exhibit 849 remained in effect until cancelled, in respect to importations from countries entitled to intermediate or Most Favoured Nation tariffs, by Appraisers' Bulletin dated December 27, 1935, becoming effective January 1, 1936.

Exhibit 855 shows that, in respect to the item under date of January 16, 1936, customs and excise taxes imposed at the present time are, taken on an ad valorem basis, 34%

as against 25% prior to 1930.

(c) Artificial Silk Yarns

Exhibit 807 shows the history of the tariff items affecting artificial silk tops, yarns and fabrics. The following is an extract from Exhibit 807 in respect to yarns :

"Artificial silk yarns have been dutiable as follows:

	British Prefer.	Inter-mediate	General
Single Strand -			
1923: Item 583a	12½%	17½%	20%
1928: Item 558b	12½%	17½%	20%
17th Sept. 1930: Item 558b	25%	30%	35%
Duty to be not less than, per pound	28¢	28¢	28¢
19th April 1934: Item 558b	20%	30%	35%
Duty to be not less than, per pound	20¢	28¢	28¢
2nd May 1936 : Item 558d	5%	30%	35%
(a) Produced from cellulose acetate Provided that, in no case, shall the duty be less under the Intermediate and General Tariffs than, per pound	-	28¢	28¢
(b) N.O.P.	20%	30%	35%
Provided that, in no case, shall the duty under the Intermediate or the General Tariffs, be less than, per pound	-	28¢	28¢
Ply Yarns - i.e. two or more strands twisted together ;			
1923: Item 583b	17½%	22½%	25%
1928: Item 558d	17½%	22½%	25%
17th Sept. 1930: Item 558d	25%	30%	35%
Duty to be not less than, per pound	28¢	28¢	28¢
2nd May 1936:			
(a) Produced wholly from cellulose acetate	17½%	30%	35%
Provided that, in no case, shall the duty under the Intermediate or General Tariffs be less than, per pound	-	28¢	28¢
(b) N.O.P.	25%	30%	35%
Provided that, in no case, shall the duty under the Intermediate or General Tariffs be less than, per pound	-	28¢	28¢

> It may be noted that prior to 1923 artificial silk yarns, single or ply, with individual strands of 135 denier or finer, were permitted entry free of duty as being the equivalent of cotton yarns 40's or finer."

1. Viscose Yarns :

Exhibit 863 deals with a type of viscose yarn most generally used, 150 denier, 60 filaments . Viscose yarns are only manufactured in Canada by one concern, Courtaulds (Canada) Limited. This exhibit refers particularly to yarns purchased in the United States of America. Prior to 1930 the tariff between Canada and the United States of America was 20% ad valorem. In September, 1930, it was increased to 35% or 28 cents a pound, whichever was the higher. On the item dealt with in Exhibit 863 this is shown to be an increase of 75%. The excise taxes operated to increase the protection of the Canadian manufacturer. On the 1st of January, 1936, due to the Canada-United States agreement, the ad valorem duty was reduced from 35% to 30%. This, however, did not make any effective reduction in duties as the 28 cents a pound minimum was still more than 30%. The total protection, with customs and excise taxes, on the items shown under date of January 7, 1936, amounts to 49%.

Exhibit 864 refers to the same type of yarn as dealt with in Exhibit 863, but illustrates the protection afforded as against the manufacturer in the Netherlands and the comparative selling prices between the Netherlands and Canada. The increase in the protection in September, 1930, in respect to yarns imported from the Netherlands amounted to 221%. In 1936 the duty and excise taxes on yarns selling in the Netherlands at 34.31 cents a pound would amount to 29.87 cents, or an ad valorem rate of 87%. In other words, the

Canadian Weaver paid 65 cents a pound to the Canadian Manufacturer for yarns which, except for customs duties, he might buy in the Netherlands for 34.31 cents a pound. This was before the Netherlands went off the gold standard. The situation today would be altered to the extent that there would be a reduction of 22% in the price to the Canadian weaver, provided that prices in the Netherlands have remained the same.

Exhibit 865 deals with the rates of duty applicable to 100 denier, 21 filaments yarn produced in Great Britain. The increase in 1930 amounted to 84%. In 1934 the ad valorem duty was decreased from 25% to 20%, or a specific duty of 20 cents, whichever was the higher, instead of 28 cents which had prevailed, less the usual 10%. In May, 1936, a further reduction was made in regard to yarns entitled to entry under the British Preferential Tariff by way of the abolition of the 20 cents a pound minimum. The rate now applicable in respect to Great Britain is 20%, less the 10% deduction, as against 12½% prevailing before the increases in 1930.

<u>2. Acetate Yarns:</u>

From the inception of the customs duty imposed on artificial silk yarns down to May, 1936, the same tariff item governed all artificial silk yarns. In May, 1936, following Reference No. 38 to the Tariff Board, viscose and acetate yarns were divided for duty purposes, the same rate of duty applying under the Intermediate and General Tariffs, but for goods entitled to entry under the British Preferential Tariff the rate for acetate yarns is 5% ad valorem as against 20% ad valorem for other artificial silk yarns not more advanced than singles. The rate on acetate ply yarns

(two or more strands twisted together) is 17½% ad valorem under the British Preferential Tariff as against 25% on other yarns. As to yarns entitled to entry under the Intermediate and General Tariffs, the same rates of duty apply for both acetate and other yarns.

(d) Artificial Silk Woven Fabrics

Exhibit No. 807 shows the history of the tariff items affecting woven fabrics composed wholly or partially of artificial silk :

"Woven fabrics composed of artificial silk:

	British Prefer.	Inter-mediate	General
Composed wholly of artificial silk			
1923: Item 583c	17½%	32½%	35%
1928: Item 561	17½%	32½%	35%
17th Sept. 1930: Item 561	27½%	40%	45%
and, per pound	30¢	40¢	40¢
2nd May, 1936:	30%	40%	45%
and, per pound	-	40¢	40¢
Under the Canada-France Trade Agreement Intermediate less 10% of the ad valorem duty			
Composed in part of artificial silk (the other fibre being generally cotton)			
1923: Item 583c	17½%	32½%	35%
1928: Item 561a	20%	30%	35%
17th Sept. 1930 : Item 561	27½%	40%	45%
and, per pound	30¢	40¢	40¢
2nd May, 1936:	30%	40%	45%
and, per pound	-	40¢	40¢
Under the Canada-France Trade Agreement Intermediate less 10% of the ad valorem duty"			

It will be noted that the same protection has been given to manufacturers of fabrics wholly of artificial silk as to those manufacturing fabrics composed in part of artificial silk. Tariff Item No. 561 reads as follows:

> "Woven fabrics, wholly or in part of artificial silk or similar synthetic fibres produced by chemical processes not to contain wool, not including fabrics in chief part by weight of silk, N.O.P. "

Prior to 1930, the tariff on artificial silk fabrics was slightly lower than the tariff on cotton fabrics, therefore, the combining of artificial silk yarns with cotton yarns in a fabric was not of such importance as it is today. At the present time, if 5% of a fabric is composed of artificial silk, even for decorative purposes such as cotton shirtings, it must be entered under Item 561, which governs all artificial silk fabrics. Some specific reference will be made to some unfairness that has arisen in respect to this classification.

In addition to the protection afforded by the tariff of customs duties shown in Exhibit 807, on December 12th, 1931 by Order in Council, P.C. 3013 authority was given the Minister of National Revenue to fix the value for duty on certain fabrics. The minimum value for duty on woven fabrics composed wholly of artificial silk was fixed at $1.25 per pound. (See Exhibit 847) This remained in effect until cancelled on December 27th, 1935, effective as of January 1st, 1936, as far as it applied to goods entitled to entry under the intermediate tariff. The effect of this ruling was similar to the effect of the ruling in respect to flannalette heretofore dealt with. It placed the minimum value at $1.25 per pound and brought into operation Section 6 of the Customs Tariff Act providing for special dumping duty. (See Exhibit 125 which demonstrates the effect of this increase.)

Exhibit 866 is a statement dealing with 12 rayon fabrics as sold in the United States of America and Canada in October, 1936. The first two fabrics referred to are fabrics as sold in the United States of America, having a cotton warp and rayon filling. Mr. Hooper explained (Evidence page 11977) that an adjustment should be made on

the American selling prices of 30 cents a pound to allow for the difference in the cost of cotton warp yarn and rayon warp yarn and its preparation. This would bring the American price of these two fabrics up to $1.23 per pound and $1.27 per pound respectively. These two fabrics have special interest in this investigation on account of the fact that the corresponding Canadian fabric is the Ming Toy fabric of The Montreal Cottons Limited, which, it is said, competes with the 27" rayon taffeta being imported from Japan. Prior to the importation of the Japanese fabric, the Canadian fabric sold at $1.85 per pound. It has now been reduced to $1.60 per pound, which is between 33 and 37 cents a pound higher than the corresponding American price.

Pursuant to Mr. Hooper's undertaking, given on pages 11957 and 11961, he has procured the Canadian selling prices for the Canadian fabrics corresponding to the next three American fabrics dealt with in this exhibit. They are as follows: $1.17, $1.33, $1.52. Mr. Hooper was unable to secure the selling price of a corresponding Canadian fabric to the next item, but has secured corresponding Canadian prices to the following four items. These are as follows: $1.70 to $1.79, $1.32, $1.21, $1.23, respectively.

It may be mentioned in parenthesis here that what Mr. Hooper stated in evidence earlier is borne out, that is that, with the exception of the low grade taffetas, the American selling prices are higher than the Canadian selling prices and that it would be easier for the Japanese manufacturers to sell below the American market than to sell below the Canadian market. In respect to the low grade taffetas, the reason apparently that the Japanese manufacturers can undersell the Canadian manufacturers is because the Canadian

manufacturers' prices are substantially higher than the American manufacturers' prices.

An examination of Exhibit 867 shows that in October, 1931, the Canadian mill spread on a 27" plain rayon taffeta was $1.05 a pound. On the 15th of December, three days after the fixed valuation went on, the Canadian mill spread was $1.24 a pound and the price was increased by 19 cents a pound, although there was no increase in the price of rayon yarn. In April, 1932, the Canadian mill spread was increased to $1.28, rayon yarn having dropped 4 cents a pound with no corresponding decrease in the price of the fabric. How little the price of the fabric was governed by the price of the rayon yarn is further demonstrated by Exhibit 867. In February, 1934, although the price of the rayon yarn had dropped to 70 cents a pound, the price of the fabric was $2.01 with a mill spread of $1.31, being the largest mill spread of any period from 1931 to 1936. This notwithstanding the reduction that had been made in wages.

(e) Natural Silk Fabrics

The three important groups of natural silk products that may be considered are as follows:

(1) Broad silks, i.e. 27" wide or over;

(2) Silk fabrics 26" wide or less;

(3) Ribbons of all kinds.

The following is a table taken from Exhibit 809 showing the history of the tariff items : dealing with Group 1:

"Broad silks, which were first made in Canada somewhere about the year 1922 or 1923, were dutiable as follows:

	British Prefer.	Inter-mediate	General
1907:	17½%	27½%	30%
1928: Item 560a	17½%	32½%	35%
1930: Item 560a	27½%	40%	45%
1931 to date:	27½%	40%	45%
and, per lineal yard		10¢	10¢"

Group No. 2 are governed by Tariff Item 560b. The rates of customs duties since February 17th, 1928, have been as follows:

British Prefer.	Inter-mediate	General
17½%	32½%	35%

subject to 10% reduction under the intermediate schedule under the provisions of the Canada-France Trade Agreement.

Group 3, Ribbons, are governed by Tariff Item 562. The rates prevailing since 1906 are as follows:

British Prefer.	Inter-mediate	General
22½%	32½%	35%

Under the provisions of the Canada-France Trade Agreement, in force since June 10th, 1933, the intermediate tariff is subject to a discount of 15%.

Exhibit 869 shows the trend of prices of natural silk fabrics in Canada. In most cases these prices have dropped to a very much greater degree than have prices of other textiles under review.

Exhibit 916, filed by Mr. Howson, shows that in 1930 there were 9 weavers of silk fabrics in Canada. By 1935 this number had increased to 16. This, together with the competiton from the artificial silk fabrics due to the rapid improvement in the fabrication of artificial silk yarns and fabrics, no doubt, in a large measure accounts for the reduction in prices as shown in Exhibit 869.

Thomas D. Switzer, a buyer for The T. Eaton Company, Ltd., Toronto, gave evidence at Page 6703 that in the silk trade where the tariff is prohibitive, the price is 55 per-cent less than before the tariff increases. He attributed this to internal competition and the low price of raw silk. It must be borne in mind that judging from the history of

the textile industry in Canada, internal competition from a number of independent mills has been gradually eliminated in other branches of the industry by mergers, amalgamations and trade agreements. It may, therefore, be assumed that as the purchasing power of the consumer in Canada increases, the prices will increase and steps will be taken to recast the competitive situation in the industry, unless it is subjected to competition from abroad.

(f) Blankets and Rugs

Exhibit 814 deals with the history of the tariff items affecting Blankets and Rugs since 1907. The rugs referred to are rugs of the type known as automobile and steamer rugs and similar articles. The rates have been as follows:

Blankets

	British Prefer.	Inter-mediate	General
1907 to 1922:			
Blankets wholly of wool	22½%	30%	35%
Blankets wholly of cotton	25%	30%	35%

In 1922 the items were amended to cover blankets of any material and the rates were :

1922:	22½%	30%	35%
1928: Woollen Blankets	22½%	30%	35%
Cotton Blankets	15%	22½%	27½%

In September 1930, under Tariff Item 553, blankets of wool and cotton were again merged, the rates being,

17th September, 1930	22½%	30%	35%
and, per pound	20¢	25¢	30¢
24th May, 1932:	22½%	30%	35%
and, per pound	10¢	25¢	30¢

Rugs

For the type known as automobile and steamer and similar articles, the rates have been as follows:

		British Prefer.	Inter-mediate	General
1907:		30%	35%	35%
1922:		$27\frac{1}{2}$%	35%	35%
17th Sept. 1930:	Tariff Item 555	30%	40%	40%
	and, per pound	25¢	$32\frac{1}{2}$¢	35¢
Oct. 13th, 1932:	Tariff Item 555	30%	40%	40%
	and, per pound	$18\frac{3}{4}$¢	$32\frac{1}{2}$¢	35¢

Under the New Zealand Trade Agreement, rugs, travelling, all wool, 30%

It will be noted in respect to blankets that from 1907 to 1922 cotton blankets were at a higher rate of duty, when imported under the British Preferential Tariff, than were woollen blankets. From 1922 to 1928 the rate was the same. In 1928 the rate on cotton blankets was reduced under all tariffs. In 1930 cotton and woollen blankets were classed under the same tariff item when the prevailing ad valorem rate for woollen blankets was adopted and the following specific duties added :

British Preferential	Intermediate	General
20¢ per pound	25¢ per pound	30¢ per pound

In May 1932 the specific duty under the British Preferential Tariff was reduced from 20 cents a pound to 10 cents a pound.

Exhibit 871 illustrates the effect of the rates of duty prevailing since January, 1930, in respect to cotton and woollen blankets (not less than 5% wool) imported from the United States under Tariff Item 553. It will be noted that in January, 1931, the ad valorem rate of 35%, which had prevailed prior to September, 1930, would have imposed a customs duty of $56.82 on the importation.

The specific duty, however, was $105.00 on 100 pairs of blankets costing in the United States of America $162.33, or equal to 65% ad valorem duty. The total duties payable on this importation would, therefore, amount to an ad valorem duty of 100%.

In April, 1932, the Canadian manufacturer had the benefit of the additional 3% excise tax which, imposed on the duty paid value, would be equivalent to an additional 6% ad valorem duty.

In April, 1936, on a hundred pairs of blankets costing $171.48 in the United States of America, an ad valorem duty of 30% would be payable, amounting to $51.60 and a specific duty of 25 cents per pound, amounting to $87.50, together with an excise tax of $9.33, or a toal of $148.43, being equivalent to an ad valorem duty of 87% as against 35% prevailing prior to September, 1930.

It will also be noted that, notwithstanding the drastic increases in wages in the United States in 1933 and the shorter hours of labour, the Canadian manufacturer has consistently charged a considerably higher price for these articles than that realized in the United States of America. For instance, in April, 1936, the selling price in the United States of America was $171.48 while the selling price in Canada was $225.00.

Exhibit 872 shows the Canadian and American mill spreads on the fabric dealt with in Exhibit 871. It may be noted that in January, 1936, the Canadian mill spread was 7.36 cents per pound higher than the American mill spread, notwithstanding the lower wages paid in Canada. It may also be noted that in January, 1936, the total mill spread on 100 pairs of blankets would amount to $168.71 while it was shown by Exhibit 871 that the total duty and

excise tax payable at this time on the item dealt with under date of February 26th, 1936, is $149.27, or in other words, the protection afforded the Canadian manufacturer, as against the American manufacturer, is 89% of the total cost of manufacture.

Exhibit 873 deals with duties payable on cotton blankets imported from the United States of America under Tariff Item 526 prior to 1930. The only duty payable was an ad valorem duty of 27½%. In September, 1930, the tariff of customs duties Item No. 553 was 35% ad valorem and 30 cents a pound specific. The effect of this increase is demonstrated in Exhibit 873. On 100 pairs of blankets selling at $110.00 in the United States of America the increase in customs duty amounted to 310%. On 100 pairs of cotton blankets selling in the United States of America in January, 1931, at $85.00, the ad valorem duty amounted to $29.75 while the specific duty amounted to $82.50, or the specific duty alone was 97%. In 1933, on 100 pairs of blankets selling in the United States of America at $70.00, the ad valorem duty amounted to $29.45 while the specific duty amounted to $82.50 or 118%. In addition to this, the Canadian manufacturer had the benefit of the protection of 3% sales tax levied on the duty paid value of the goods. This amounted to $5.88, $3.36 of which was levied on the duties payable on the goods, while $2.52 was levied on the selling price of the goods in the United States of America. In addition to all this, the Canadian manufacturer had at that time the benefit of the protection afforded by a currency exchange rate of 20.19%.

At the present time, since the Canada-United States Trade Agreement, effective January 1st, 1936, the tariff of

customs duties is 30% ad valorem and 25 cents a pound specific duty. On an importation, costing in the United States of America $107.00, the following duties and taxes would be payable on importation into Canada : ad valorem duty, $32.30, specific duty $68.75, excise tax $6.25, a total of $107.20 or 100% ad valorem duty as against 27½% prior to September, 1930.

Exhibit 874 is a comparative statement of the Canadian and American mill spreads on cotton blankets. This statement shows that prior to the time the Canadian manufacturers got the increased protection in 1930 the Canadian selling price was very considerably higher than the American selling price and the Canadian mill spread nearly twice as much as the American. Following the rise in prices in the United States of America in 1933 the Canadian manufacturers' prices were increased and, in February, 1934, were almost 25% higher than the prices in the United States of America, with a mill spread 28% higher. In 1936, the selling price in Canada was still approximately 25% higher than the selling price in the United States of America and the mill spread nearly 50% higher.

(g) Carpets and Floor Rugs

Exhibit 815 is a statement showing the rates of customs duty applicable on carpets and floor rugs since 1907. The statement is as follows:

"Carpets and rugs of the Oriental, Brussels, Wilton, Axminster, Chenille and Kidderminster types :

	British Prefer.	Inter-mediate	General
1907 to 1930: Item No. 572	25%	30%	35%
1930: Item No. 572	30%	35%	40%

	British Prefer.	Inter-mediate	General
and, per square foot	10¢	15¢	20¢
1932: Item No. 572	30%	35%	40%
and, per square foot	5¢	15¢	20¢
March 1935: Oriental and imitation Oriental rugs or carpets and carpeting, carpets and rugs, n.o.p. :-			
(a) If valued at less than two dollars per square yard	30%	35%	40%
and, per square foot	3¢	15¢	20¢
(b) If valued at two dollars or more per square yard	30%	35%	40%
and, per square foot	5¢	15¢	20¢

Under the New Zealand Trade Agreement rugs floor, or carpets, of wool, 25%."

The carpet industry evidently carried on in Canada for 23 years without change in the tariff of customs duties until 1930 when the ad valorem duties were increased and specific duties applied. The effect of the increase in duties is demonstrated by Exhibit 875, which deals with a thousand-yard, 36" tapestry piece from Great Britain. The increase in duties in 1930 amounted to 171%. On this piece the specific duty, when applied, amounted to more than the ad valorem duty of 30%. When the price decreased in England to $730.00 as against $831.39 inSeptember , 1930, the specific duty was considerably more than the ad valorem duty, the specific duty being $270.00 as against an ad valorem duty of $197.10. The effect of the 3% excise tax applicable from April, 1932, to April, 1934, is further demonstrated by this exhibit, the excise tax being $35.91, $14.01 of which is payable on the customs duties and $21.90 on the cost price of the goods inEngland. The situation today, as compared with prior to 1930 is this : on an importation costing, in England, $689.44, $267.15 is payable

in duty. If the tariff of customs duties that prevailed from 1907 to 1930 were in effect oday, the customs duty on such goods imported into Canada from Great Britain would be $155.12. The type of carpet dealt with in Exhibit 875 is a cheaper class of carpet costing, in Great Britain, 81 cents a square yard in 1930 and 69 cemts in 1936.

Exhibit 876 deals with a more expensive type of carpet costing, in Great Britain, $3.61 per square yard in 1930 and $3.22 in 1936. The increase in duties in 1930, on the example dealt with, amounted to 56¼%, the ad valorem duty on the more expensive article amounted to $1001.92 as against the specific duty of $270.00 or, in September,1930, a total ad valorem duty of 34%. At the present time the rate on this fabric, imported from Great Britain, would be 30% and 5 cents per square foot. On the fabric selling at the same price today, that is $3710.82, the total payable on an ad valorem basis would be at the rate of 31%.

Exhibit 875 and 876 show clearly how the specific duties applied in 1930 bear down on the consumer of low priced goods or, in other words, the consumer whose purchasing power is curtailed due to economic conditions. The piece of carpet dealt with in Exhibit 875 is the type of carpet that would go into the worker's home. The increase in 1930 provided for duties, on an ad valorem basis, of 59% or an increase of 171% over the duties that had prevailed heretofore. On the carpet dealt with in Exhibit 876, which is a carpet that would go into the middle class home and better, the rates of customs duty imposed in September, 1930, on an ad valorem basis, worked out to 34% or an increase of 56.4%. The rate of duty applicable today

on the type of carpet dealt with in Exhibit 875, collected on an ad valorem basis, is 39% as against the rate of duty applicable to the item dealt with in Exhibit 876, on an ad valorem basis, of 31%.

It must be borne in mind that Exhibit 876 does not in any way exaggerate the unfairness of the specific duties to the consumer of low priced goods. An example might have been taken of a very much more expensive carpet than dealt with in Exhibit 876 which would more forcibly demonstrate the fact that, on the cheap grade of carpet, the man with low purchasing power was penalised with precisely the same specific duty as the purchaser of very expensive goods.

Under the British Preferential Tariff a change was made in 1935 reducing the specific duty from 5 to 3 cents on the lower priced goods, but it will be noted that they still pay a higher ad valorem rate than the more expensive goods when the specific and ad valorem duties are collected on an ad valorem basis and, under the intermediate and general tariffs, the same specific duties are payable on both classes of goods, regardless of the selling price. These specific duties are 15¢ per square foot under the intermediate tariff and 20 cents per square foot under the general tariff.

(h) Knit Goods

Exhibit 812 deals with the Customs tariff applicable to knit goods from 1907 to 1936. This is divided into two parts, the tariff items referring to knitted fabrics in piece goods form, and the tariff items referring to knitted goods generally. They are as follows:

(1) Knitted fabric in piece goods form:

The exact text of the respective items is not quoted, but an indication of material is given, which will serve the purpose.

	British Prefer.	Inter-mediate	General
1907:			
Knitted fabrics of all kinds, i.e. cotton, wool, silk, etc.	22½%	30%	35%
1922:			
Knitted fabrics of all kinds, i.e. cotton, wool silk, etc.	20%	30%	35%
1928:			
Cotton or linen	20%	27½%	30%
Woollen or worsted - 5 oz. per square yard or less	22½%	30%	35%
over 5 oz. per sq. yard	27½%	35%	35%
Real Silk	20%	32½%	35%
17th Sept. 1930: Item 568			
Knitted fabrics of all kinds, i.e. cotton, wool, silk, etc.	25%	25%	45%
22nd March 1933 to date: Item 568			
Knitted fabrics of all kinds, i.e. cotton, wool, silk, etc.	25%	35%	45%
and per pound	-	25¢	30¢

(2) Knitted goods generally:

In giving the following tariff rates the actual text of the Tariff Item is indicated.

1907:			
Undershirts, drawers and knitted goods, n.o.p.	22½%	30%	35%
1922:			
Knitted undershirts, knitted drawers and knitted goods n.o.p.	20%	30%	35%

	British Prefer.	Inter-mediate	General
1929: Item 568			
Knitted garments, knitted underwear and knitted goods, n.o.p., all valued at more than 90¢ per pound	20%	30%	35%
Item 568a			
Knitted garments, knitted underwear and knitted goods, n.o.p., all valued at 90¢ per pound, or less	15%	30%	35%
17th Sept. 1930: Item 568			
- Knitted garments, knitted underwear and knitted goods, n.o.p.	25%	25%	45%
22nd March, 1933 to date: Item 568			
Knitted garments, knitted underwear and knitted goods, n.o.p.	25%	35%	45%
and, per pound	-	25¢	30¢

In 1930 the British Preferential rate on knitted piece goods was increased from 20 to 25% and the intermediate rate was decreased from 30 to 25%. The latter, however, was not a material change due to the fact that most of the countries affected by the intermediate tariff were entitled to Most Favoured Nation treatment. The rate applicable was 25% under the Canada-France Trade Agreement and this applied to all countries entitled to Most Favoured Nation treatment. The general rate was increased from 35 to 45%.

In 1933 drastic increases were made in the intermediate and general tariffs, as is apparent from Exhibit 812. In addition to the increase in the ad valorem duty under the intermediate schedule from 25% to 35%, a specific duty of 25 cents a pound was applied under the intermediate tariff and 30 cents a pound under the general. It will be noted that cotton, wool, silk and rayon knot goods all come under this tariff item 568 and that the specific duty is applicable in the same

measure to cheap cotton fabrics, which would be purchased by the poorer classes in Canada, as on the silk fabrics that would be purchased by the wealthy. What is said in respect to the knitted fabric piece goods is equally true in all respects in respect to knit goods generally.

- In addition to the tariff protection given to the Canadian manufacturers by the increases in 1930 and 1933, special action was taken by the Minister of National Revenue on June 7th, 1932, under an Order in Council passed under the provisions of Section 43. (See Appraisers' Bulletin No. 3886, Exhibit 878.) This bulletin applied to wool Jersey cloth and cotton stockinette. Under the provisions of the Appraisers' Bulletin, advances were to be made on the true invoice value at the place of export if in Canadian funds, or its equivalent in Canadian funds, as follows:

On Wool Jersey Cloth	25 cents per pound
On Cotton Stockinette	10 cents per pound

This was not a fixed valuation such as had been placed on other textiles heretofore dealt with, but was an arbitrary advance on the invoice value. The effect of this was to raise the value for duty by the advance provided for. Duty would be collected on the selling price, plus this advance, at the ad valorem rates, plus the specific duty (after 1933), plus the excise taxes which levied on the duty paid value, plus the dumping duty which amounted to the difference between the selling price in the country of export and the value for duty thus established, which, of course, is 25 cents per pound in the case of wool Jersey cloth and 10 cents per pound in the case of cotton stockinette.

The following, taken from Exhibit 879, is an example of the effect of this bulletin on knitted wool Jersey cloth: from Great Britain in the grey:

Knitted Wool Jersey Cloth from Great Britain

May, 1932:

100 lbs. @ 3/9 - 18/15/-		Per Cent of Invoice Value
Value for duty 18/15/- @ $4.86	$91.25	
Duty: British Preferential Tariff Ad valorem 25% less 10%	20.53	27
Excise Tax, 3% on $111.78	3.35	4
Dumping Duty 18/15/- @ $4.40 less 18/15/- @ $4.10	5.44	7
Duty and Excise	29.32	38
Invoice Value - 18/15- @ $4.11	77.06	
	106.38	

August, 1932:

100 lbs. @ 3/9 - 18/15/-		Per Cent of Invoice Value
Value for duty 18/15/- @ $4.10 -$76.88 plus fixed value (25¢ a pound) - 25.00	$101.88	
Duty: British Preferential Tariff Ad valorem 25% less 10%	22.92	30
Excise Tax 3% on $124.80	3.74	5
Dumping Duty $101.88 less $76.88	25.00	32
Duty and Excise	51.66	67
Invoice Value	76.88	
	128.54	

It will be noted from this calculation that, by the simple process of the publication of this Appraisers' Bulletin, the customs duty, taken on an ad valorem basis, was increased from 38% to 67% on the articles affected by the bulletin without consulting Parliament.

The following is an example from Exhibit 879 of the effect of the Appraisers' Bulletin, Exhibit 878, in respect to wool Jersey cloth from the United States of America and, further, the effect of the increase in rates of customs duty by the imposition of specific duties in 1933:

Knitted Wool Jersey Cloth from the United States of America

16th May, 1932:

Currency Exchange Rate: 12.53%

100 lbs. @ $1.20 - $120.00 (U.S.A.

		Per Cent of Invoice Value
Value for duty: $120.00 @ 112.53	$135.03	
Duty: General, ad valorem 45%	60.76	45
Excise Tax, 3% on $195.79	5.87	4
Duty and Excise	66.03	49
Invoice Value	135.03	
	201.66	

27th January, 1933:

Currency Exchange Rate: 16.25%

100 lbs. @ $1.20 - $120.00 (U.S.A.)

Value for duty $120.00 @ 116.25 - 139.50 plus fixed value (25¢ a pound) $25.00	$164.50	
Duty: General, ad valorem 45%	74.02	53
Excise Tax, 3% on $238.52	6.86	5
Dumping Duty: $164.50 less $139.50	25.00	18
Duty and Excise	105.88	76
Invoice Value	139.50	
	$ 245.38	

2nd May, 1933:

Currency Exchange Rate: 14.00%

100 lbs. @ $1.20 - $120.00 (U.S.A.)

			Per Cent of Invoice Value
Value for duty: $120.00 @ 114.	136.80		
plus fixed value (25¢ a pound)	25.00	$161.80	
Duty, General, ad valorem 45%		72.81	53
specific, 30¢ per pound		30.00	22
Excise Tax, 3% on $264.61		7.94	6
Dumping Duty: $161.80 less $136.80		25.00	18
		135.75	99
Invoice Value		136.80	
		$ 272.55	

It will be noted from the above illustration that the publication of the Appraisers' Bulletin increased the duties collected, on an ad valorem basis, from 49% to 76%,

without consulting Parliament, while the imposition of the specific duties in 1933 which went before Parliament increased the duties and taxes collected, on an ad valorem basis, from 76% to 99%.

The following statement illustrates the effect of the above changes on knitted cotton fabrics imported from the United States of America:

Knitted Cotton Fabric from the United States of America

16th May, 1932:

Currency Exchange Rate: 12.53%

		Per Cent of Invoice Value
100 lbs. @ 30¢ - $30.00 (U.S A.)		
Value for duty: $30.00 @ 112.53	$33.76	
Duty: General, ad valorem 45%	15.19	45
Excise Tax, 3% on $48.95	1.47	4
Duty and Excise Tax	16.66	49
Invoice Value	33.76	
	$ 50.42	

27th January, 1933:

Currency Exchange Rate: 16.25%

100 lbs. @ 30¢ - $30.00 (U.S.A.)			
Value for duty: $30.00 @ 116.25 -	$34.88		
plus fixed value (10¢ a pound)	10.00	44.88	
Duty: General, ad valorem 45%		20.20	58
Excise Tax, 3% on $65.08		1.95	6
Dumping Duty: $44.88 less $34.88		10.00	28
Duty and Excise		32.15	92
Invoice Value		34.88	
		$67.03	

2nd. May, 1933:

Currency Exchange Rate : 14.00%

			Per Cent of Invoice Value
100 lbs. @ 30¢ - $30.00 (U.S.A.)			
Value for duty: $30.00 @ 114. -	34.20		
plus fixed value (10¢ a pound)	10.00	$44.20	
Duty: General, ad valorem 45%		19.89	58
Specific, 30¢ a pound		30.00	88
Excise Tax, 3% on $94.09		2.82	8
Dumping Duty: $44.20 less $34.20		10.00	29
Duty and Excise		62.71	183
Invoice Value		34.20	
		$96.91	

(Exhibit 879b)

The above statement illustrates what was said heretofore, that the imposition of specific duties bear more heavily on the users of a cheaper class of goods. It will be noted that the publication of the Appraisers' Bulletin had the effect of raising the duties and taxes collected, on an ad valorem basis, from 49% to 92%, while the imposition of the specific duties in 1933 had the effect of raising the duties and taxes collected, on an ad valorem basis, from 92% to 183%. In this case, the specific duty amounted to 100% on the selling price in the United States of America.

Exhibit 879c is illustrative of the effect of the imposition of the specific duties in 1933 pn knitted cotton underwear from Japan. It will be noted that the result was to increase the duty collected, on an ad valorem basis, from 117% to 244%.

Exhibit 879d illustrates the effect of the imposition of the specific duties on knitted artificial silk sweaters from Italy. The result was to increase the duty and taxes collected, on an ad valorem basis, from 29% to 84%.

Exhibit 879e illustrates the effect of the Appraisers' Bulletin, Exhibit 878, on the cotton stockinette imported under Tariff Item 531. It will be noted that the effect was to increase the duty and taxes payable, on an ad valorem basis, from 29% to 88%.

Exhibits 879 to 879e have been prepared by Mr. Hooper pursuant to the request made at page 11996 of the evidence.

It will be noted that the Appraisers' Bulletin, Exhibit 878, effected importations under Tariff Items 568 and 531. Tariff Item 531 applied to knitted fabric, wholly of cotton, imported by manufacturers of rubber boots and shoes for use exclusively in the manufacture of such articles,

The rates of duty applicable were:

British Preferential	Intermediate	General
10%	20%	25%

No change has been made in this rate since 1928.

(i) Hosiery

Exhibit 813 deals with the rates of customs duty leviable on hosiery of different types since 1907:

"Socks and Stockings of all kinds were dutiable from 1907 until the tariff revision of 1928 at:

	British Prefer.	Inter-mediate	General
Item 568a	25%	32½%	35%

In 1928 the item was divided into six sections, according to whether the stockings were of cotton, wool, silk or artificial silk, and, in the case of woollen stockings, there were two extra items, making three in all for woollen stockings, graded according to value, which virtually was a separation in regard to qualities, i.e. ranging from the coarse strong type to the finer grades.

From 1928 to 1930 the six items were as follows:

	British Prefer.	Inter-mediate	General
Cotton Stockings: Item 530	20%	27½%	30%
Woollen Stockings:			
Worth more than $1.50 per pound - Item 556	27½%	32½%	35%
Worth more than 90¢ per pound, but not exceeding $1.50 - Item 556a	25%	32½%	35%
Worth 90¢ per pound or less - Item 556b	20%	27½%	30%
Silk Stockings: Item 566	25%	32½%	35%
Aritficial Silk Stockings: Item 566a	25%	32½%	35%

In 1930 socks and stockings were again grouped in one item, 568a, at the following rates of duty:

	British Prefer.	Inter-mediate	General
	30%	32½%	35%
and, per dozen pairs	$1.00	$1.35	$1.50
which rates were changed in October 1932 to:	30%	32½%	35%
and, per dozen pairs	.75¢	$1.35	$1.50

These latter rates still obtain."

A study of this exhibit emphasizes the unfairness of the present system of the tariff duties applicable to hosiery. It will be noted that until 1928 the same rate of customs duty applied on all hosiery, irrespective of the type, but the rate was an ad valorem rate and the more expensive the hosiery imported the more duty would have to be paid. In 1928, however, the principle was recognized that even this was not fair to the consumers of low priced hosiery, and cotton stockings and cheap woollen stockings were allowed entry at a lower rate than more expensive woollen stockings and silk stockings. In September, 1930, however, the ad valorem rates under the British Preferential Tariff were all increased and the ad valorem rates on the low priced stockings were increased under the intermediate and general schedules and all types of socks bore the same rate of duty. In addition to this, a specific duty of $1.00 per dozen pairs was made applicable under the British Preferential Tariff, $1.35 under the intermediate tariff and $1.50 under the general tariff. In 1932 the specific duty under the British Preferential Tariff was reduced to 75 cents per dozen pairs. It will, therefore, be noted that the specific duties bear more heavily in proportion to the value of the goods on the purchasers who have not the ability to pay than on those who have.

Exhibit 882 shows that, for the fiscal year ending on March 31st, 1930, there were 70,197 dozen pairs of socks or stockings, wholly or in part of silk, imported into Canada, while in 1935 there were 868 dozen pairs.

The following table of imports taken from the "Trade of Canada", shows the effect of these customs duties on importations of socks and stockings into Canada and how competition from outside Canada has been practically eliminated:

	Cotton Socks and Stockings	Woollen Socks and Stockings	Artificial Silk Socks and Stockings
1930 (Doz. Pairs)	592,453	549,323	517,008
1935 (Doz. Pairs)	2,164	85,911	617

j. British and Foreign Excise Taxes

The evidence shows that in August, 1933, when the A.A.A. was adopted in the United States of America, a processing tax of 4.2 cents a pound was levied on the first process of raw cotton. This, however, was not collected on goods manufactured for export, or on the other hand a drawback of this amount was allowed on goods exported. From August, 1933, until July, 1934, the amount of the processing tax was included in extimating the value for regular and special duty.

In Great Britain an excise tax is levied on artificial silk yarns amounting to 6d. a pound. Proir to July 2, 1934, this tax was one shilling a pound. This tax is not payable on goods manufactured for export. It is, however, included in estimating the value for regular duty notwithstanding the fact that it is not included in the selling price of the goods to the purchaser in Canada. In the case of artificial silk fabrics, although the excise tax of 6d. a pound on the yarn is imposed, the manufacturer of the fabrics is allowed

a drawback of 1s a pound on goods exported, which has the net effect of bonusing the manufacturer to the extent of 6d. a pound on goods exported. In estimating the value for duty, the excise tax is included in the fair market value for regular duty although it is not included in the selling price to the purchaser.

In Japan, manufactured goods are subjected to a consumption tax of 10%. This tax, however, is not levied on goods exported. It is, however. included in estimating the value of goods imported into Canada for regular duty.

The reason that the excise taxes imposed in British and foreign countries has been disregarded in estimating the value of goods for special duty is because of the provisions of Sub-section 2, Section 6 of the Tariff Act, which reads:

> "2. Excise duties or excise taxes shall be disregarded in estimating the market value of goods for the purposes of special duty when the goods are entitled to entry under the British Preferential Tariff, the Intermediate Tariff or any Tariff more favourable than the General Tariff."

The reason why these excise taxes are included in estimating the value for regular duty is because of the following provisions in the Customs Act:

> "35. (1) Whenever any duty ad valorem is imposed on any goods imported into Canada, the value for duty shall be the fair market value thereof, when sold for home consumption in the principal markets of the country whence and at the time when the same were exported directly to Canada."

> "38. (6) In estimating the value for duty no discount or deduction shall be allowed which is not shown and allowed and deducted on invoices covering sales for home consumption in the country of export in the usual and ordinary course of trade."

PART IV

INVESTMENT PROFITS AND COSTS

1. Introduction :

In considering investment and profits in the industry for the purpose of this inquiry, it must not be taken that what is said in this brief has any relation whatever to the measure of the profit that it is proper for industrialists to make out of production in Canada. All the observations herein are directed solely to profits made in industries that have received at the hands of the Government special privileges which are in the nature of a right to levy taxes on the consumers of Canada for the particular benefit of the industry in question.

It may not be any part of the business of Government, and it is submitted that it is no part of the duty of this Commission, to pass upon what profit ought, or ought not, to be made in industry generally, so long as the industry asks no special privilege from the Government of the nation, but it is strongly submitted that if any industry asks the Government to intervene on its behalf and grant to it a special privilege, and the Government accedes to its request, it is part of the duty of the Government, and, in respect to the textile industry, it is part of the explicit direction given to this Commission to see that careful investigation is made into the subject of investment, profits and costs in the industry.

As has already been said, the consumers of Canada have a legal right to buy their requirements at the lowest price they are offered for sale in any market. No one has the legal right to interfere with this privilege in the

absence of special legislation. The Government of Canada has by legislation interferred with this right in the interests of the textile industry by giving to it tariff protection for over 75 years. It is, therefore, proper that this industry should be considered, not from the point of view of an industry competing with producers of the world and enjoying no special privilege from the Government, but rather from the following points of view:

1. What should the consumers justly be called upon to contribute to the support of the industry through a form of private taxation.

2. What the consumers have contributed to the support of the industry in Canada.

3. What has been done with the money contributed by the consumers for that purpose.

It is submitted that where a protected industry does no substantial export business, all capital created through the operation of the business, over and above a reasonable return to the investor on capital invested by him, has been contributed by the consumer and not by the investor. It is further submitted that protection of the industry cannot be justified for the purpose of providing a return to the investor on the ground that he is entitled to a return on capital employed in operations that has been created out of profits earned in excess of a reasonable return on the capital invested by him. If a protected industry makes in profits a million dollars over and above a reasonable return on the money actually invested in the industry, the consumer has in reality been taxed to raise that million dollars, (that is, assuming that the tariff protection is necessary). It is not just

to the consumers that the investors should claim that million dollars as their capital and demand a further tax from the consumers to pay a return to the investor on that capital. It is more just that the consumers should say, we have invested in your industry a million dollars for the purpose of building up an infant industry and enabling you to meet competition from abroad; we, therefore, demand a return on our investment in the way of reduced prices through a reduction of tariffs now that we have paid for the establishment of the industry.

When reference is made hereafter to earnings on capital employed on operations, it must always be remembered that a portion of that capital, and in many cases the greatest portion of that capital, has been provided by the consumers of Canada and not by the investors.

ARTIFICIAL SILK DIVISION:

(a) Cellulose Acetate Yarns and Fabrics:

Canadian Celanese Limited is the only manufacturer of Cellulose Acetate Yarns in Canada. This Company weaves 99% of the yarns manufactured by it. The Company was incorporated on the 27th January,1926. Immediately on incorporation it entered into an agreement with a Company known as Cancela Limited, a Company incorporated under the laws of Great Britain, whereby the Cancela Limited, agreed to pay to Canadian Celanese Limited $2,275,000 on or before the 5th May, 1926, and $2,275,000 on or before the 1st December,1926, and $2,000,000. plus accrued dividends on 20,000 Seven Percent Cumulative Participating Preference Shares from the 1st of April, 1926, to the date of payment of the said sum of $2,000,000. The purpose of the last provision, that is to pay the accrued dividends on the 20,000 Preference Shares, was on account of the fact that the Company would be liable for dividends from the date of the issue of the Preference Shares, whereas under the agreement, part of the money was not payable until after the issue of the shares, and this was returning to the Company that amount up to the time of the payment of the $2,000,000 last provided for.

In consideration of these payments, the Company agreed to issue 72,000 Preference Shares and 233,800 no par value Common Shares. Subsequently the Company issued to Cancela Limited, a further 18,000 shares of Preference Stock and 16,200 shares of Common Stock, for which it received $2,196,000 in cash.

The Company, therefore, received for stock issued under this agreement $8,746,000 in cash and set up on its books a value for goodwill, patents and process, of $1,234,500, making a total of $9,980,500, which was offset by the par value of the Preferred Stock issue of $ 9,000,000; that is, a value of $980,500 set up on the books for the 250,000 shares of Common Stock issued.

Under the terms of the agreement between Canadian Celanese Limited and Cancela Limited, Cancela Limited agreed to assign to Canadian Celanese Limited the benefits of a contract with Camille Dreyfus and Henri Dreyfus whereby these inventors agrees that they would enter into an agreement with Canadian Celanese Limited to supply it with the benefits of patents and inventions governing the process of manufacturing cellulose acetate, acetic anhydride, synthetic acetic acid and other chemical products (p. 10395), and the benefit of certain agreements with the Town of Drummondville in respect to the commutation of taxes.

In 1926 nine shares of Common Stock were issued to the incorporators at a value of $45.00, and 400 shares were issued for services rendered, at a value of $1000.00. The total issue of Preference Shares amounted to 90,000, and Common Shares to 250,409.

The answer to the questionnaire, sent out by Mr. Howson, shows that of the 90,000 Preferred Shares, 57,641 shares are held outside of Canada, and of the 250,409 Common Shares, 192,792 shares are held outside of Canada.

The Annual Statement of December 31,1935,

(Exhibit 1200) shows that of the ten directors, three reside in London, England, two in Montreal, four in the City of New York and one in the City of Patterson, New Jersey.

The Company commenced manufacturing operations in 1929. For the seven years ending 31st December,1935, the Company had net profits from operations amounting to $6,586,626.36 and $1,062,114.22 revenue from outside investments. These profits have shown a great increase during the last three years of operations, the net profits from operations for the year 1935 alone being $1,813,095.58, to which may be added a further revenue from outside investments of $66,428.00. The Company's surplus and special reserves and reserves for contingencies amounted to $2,955,130.87. There was written off for depreciation of buildings, plant and machinery $1,725,800, and $1,175,100, was charged to operations for repairs to plant and machinery.

That the Company during these seven years, which embraced the period of Canada's greatest depression, earned in net profits more than the total amount of the cash invested in the company, gives a clear indication of the prosperity of the Company.

Exhibit 1201 shows that in the years 1934 and 1935 the net profits on operations to sales was 25.56% and 23.8% respectively. The net revenue applicable to capital employed in operations was 16.6% and 17.2%, respectively. Assuming that Canada enjoys a few years of prosperity equal to or better than that enjoyed in the year 1935, it may safely be assumed that this Company, if

present tariff duties are maintained, will realize extremely high profits from the consumers of Canada. Moreover the profits earned by the Company were arrived at after the payment of unusually high executive salaries..

Exhibit 1199 shows that in the year 1928, before manufacturing operations were commenced $101,998.77 was paid out in executive salaries. Two of these were over $15,000, three were between $10,000 and $15,000.

In the year 1929 twelve parties drew $135,283, the highest of which was $20,000 and the lowest $5,625. In 1930 eighteen drew $178,382.60, nine of which were above $10,000, the highest being $22,500. In 1931 twenty drew $197,106, the lowest of which was $5,000 and the highest $25,083.33. In 1932 twenty-three drew $226,911.49 the lowest of which was $5,000 and the highest $27,500. In 1933 twenty-two drew $217,156.16, the lowest of which was $5,000 and the highest $27,500. In 1934 twenty-two drew $247,398.36, the lowest of which was $5,069.24 and the highest $27,500. In 1935 twenty-eight drew $294,458.79 the lowest of which was $5,050 and the highest $35,0[illegible].54. In the year 1935 seven parties drew in salaries $148,063.59.

In this year $72,280 was paid in salaries to Directors of the Company resident outside of Canada.

For the period of seven years the mill wages amounted to 33% of sales. For the same period the salaries amounted to 4.4% of sales, and the net profits 23.8% of sales.

It will, theregore, be observed that out of the money paid by the consumer over the period of seven years, for every $33.00 that went to the wage earners, $28.20 went to the higher salaried employees or the investors.

(b) Viscose Yarns:

The only maker of viscose yarns in Canada is Cortauls (Canada) Limited. This Company was incorporated as a private corporation on August 22, 1928.

In 1924, Cortaulds, Limited, England, opened a branch for the manufacture of rayon yarns at Cornwall. The business was carried on as a branch of the English Company until August 22, 1928, when the Canadian Company was incorporated.

On August 31, 1928, for a consideration of $3,551,084.50 in cash, there was issued 25,000 Six Percent Non Cumulative Preferred Shares of $100.00 each, $2,500,000, and 35,000 Common Shares of $100.00 each, $3,500,000, the difference of $2,448,915.50 was charged in the books of the Company, to goodwill, patents and trade marks.

In May, 1931, a further 7,500 Six Percent Non Cumulative Preferred Shares of $100.00 each were issued in consideration of the cash payment of $750,000.

On December 2,1933, by Supplementary Letters Patent, the share capital was changed to an authorized issue of 40,000 Class "A" Shares and 60,000 Class "B" Shares of a par value of $100.00 each. The 32,500 Preferred Shares were exchanged for 32,500 Class "A" Shares and the 35,000 Common Shares were exchanged for 35,000 Class "B" Shares.

In July, 1934, there was a further issue of 7,500 Class "A" Shares of $100.00 wach ($750,000) and 5,000 Class "B" Shares of $100.00 each ($500,000), in consideration of a cash payment of $1,250,000, which

brought the issued capital of Class "A" Shares to 40,000, and Class "B" Shares to 40,000, or a total of $8,000,000, for which $5,551,084.50 was received in cash, the balance of $2,448,915.50 being charged to goodwill, patents and trade marks, as mentioned above.

Since the Company commenced operations in 1926, the total profits, before depreciation, amounted to $10,485,152.87. The Company, during that period, has charged to depreciation $4,553,352.09, leaving a net profit, after depreciation, of $5,931,800.78, or 17% on sales. During the same period, the Company charged to operations for repairs to buildings and machinery $1,836,896..

During the years 1926 and 1927, and up until September, 1928, when the business was carried on as a branch of the English Company, the net profits realized amounted to $1,245,739. This was credited to the English Company and invested in the capital stock of the Canadian Company.

The dividends paid to the English Company since incorporation of the Canadian Company have amounted to $1,567,500. There has been written off to goodwill $1,305,915, and at the 31st December, 1935, there was standing to the balance of Surplus Account $1,028,548.

The position of this Company's affairs appears to be as follows: A total investment of $9,661,007.90 has been made in lands, buildings and machinery. Since the Company commenced business in Canada, out of profits realized from the consumers $4,776,980.70 has been written off to Depreciation Account. $1,245,739, was realized in profits by the English Company when the branch was in operation and reinvested in land, building and machinery $1,305,915. has been written off the Goodwill Account.

The Surplus Account is $1,028,548, and there has been paid in dividends $1,567,500, making a total of $9,924,682, or $263,674.80 more than the value of the plant before depreciation. In addition to this, it will be borne in mind that the plant has apparently been kept in a very up-to-date condition by an expenditure of $1,836,896.25 for repairs.

The net result from the consumer's point of view is that the consumers of Canada have contributed to the British investor establishing this plant in Canada more than sufficient to pay for the whole plant in ten years of operation.

In considering the net profits of Courtaulds (Canada) Limited, it must be borne in mind that this Company has written off a very large amount for depreciation and has charged against profits extraordinarily large sums for repairs.

A study of Exhibits 901 and 1199, the answers to the questionnaires by Courtaulds (Canada) Limited and Canadian Celanese Limited, shows the following:

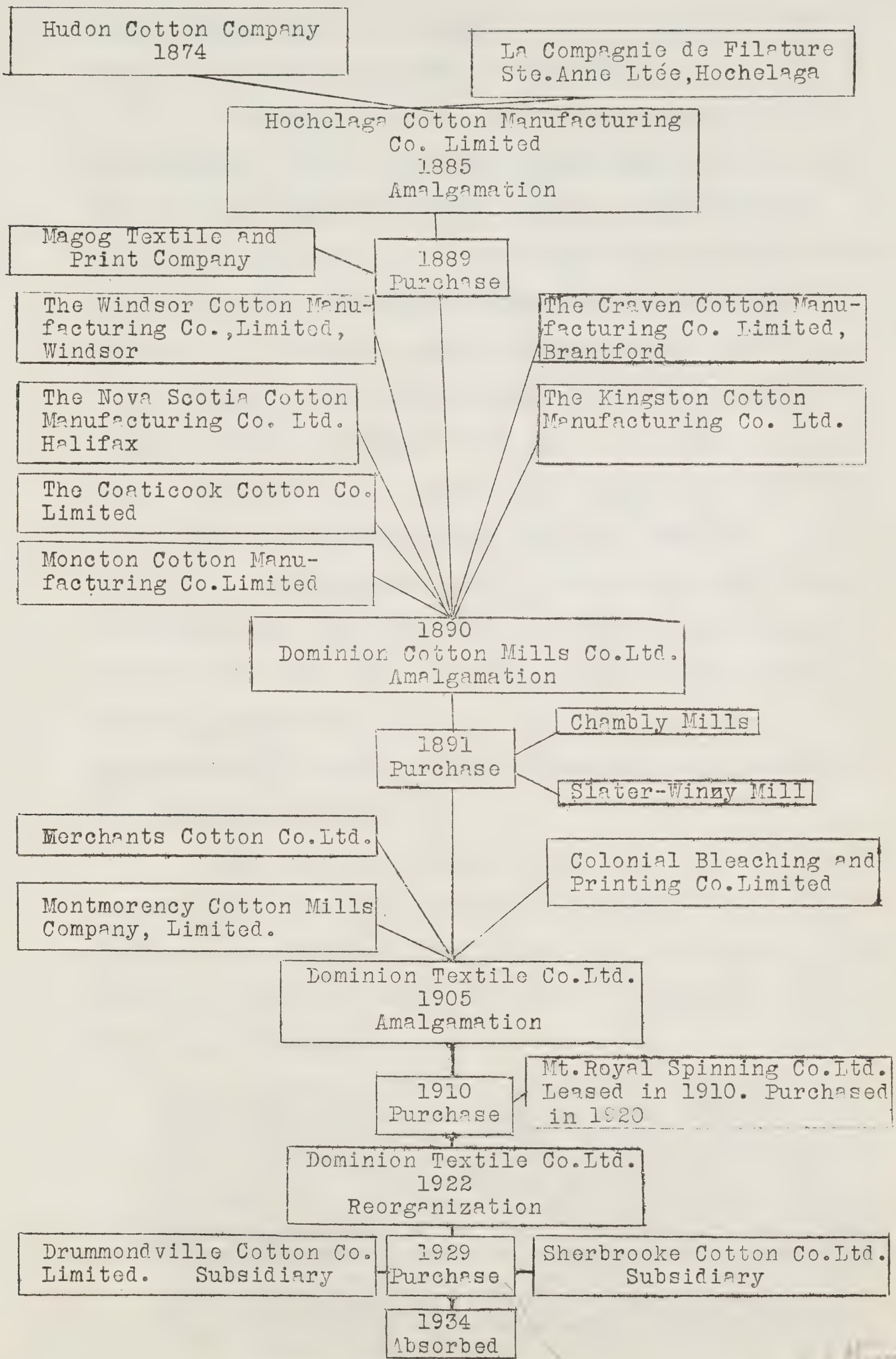
	Courtaulds (Canada) Limited	Canadian Celanese Limited.
Investment in plant	$9,661,007.90	$9,897,925.00
Average annual investment for the last 7 years, being years of complete operation for each Company	7,011,216.00	8,056,182.00
Average annual depreciation written off out of profits during the last 7 years.	494,305.00	232,035.00
Average annual ammount charged to profits for repairs during the last 7 years	212,500.00	159,400.00

The above indicates that the two companies, engaged in substantially the same type of operations with the exception that Canadian Celanese Limited, in addition to manufacturing artificial silk yarns, weaves the artificial silk yarn into fabric, have a very different scale of charges for depreciation and for repairs. It would rather appear that Courtaulds (Canada) Limited have in the Depreciation Account what amounts to a very substantial reserve of profits.

Exhibit No.1278 (Mr. Howson's summary of executive salaries) shows that the salaries paid to executives of Courtaulds (Canada) Limited are on a very much lower scale than the salaries paid by Canadian Celanese Limited. The total salaries amounted to an average of 1% of sales during the last ten years. It may also be pointed out that during the year 1935 there were only three executives who received over $10,000 a year, and these three averaged $13,215 and were all full time executives resident in Canada, while the three highest paid executives of Canadian Celanese Limited received an average of $25,880. During that year $72,280 was paid by the latter Company to Directors and Executives not resident in the Dominion of Canada.

3. COTTON DIVISION:

The following chart shows the history of the successive incorporations and amalgamations from 1874 that culminated in the capital structure of Dominion Textile Company Limited as it is to-day:


Hudon Cotton Company 1874
La Compagnie de Filature Ste.Anne Ltée,Hochelaga
Hochelaga Cotton Manufacturing Co. Limited 1885 Amalgamation
Magog Textile and Print Company
1889 Purchase
The Windsor Cotton Manufacturing Co.,Limited, Windsor
The Craven Cotton Manufacturing Co. Limited, Brantford
The Nova Scotia Cotton Manufacturing Co. Ltd. Halifax
The Kingston Cotton Manufacturing Co. Ltd.
The Coaticook Cotton Co. Limited
Moncton Cotton Manufacturing Co.Limited
1890 Dominion Cotton Mills Co.Ltd. Amalgamation
Chambly Mills
1891 Purchase
Slater-Winzy Mill
Merchants Cotton Co.Ltd.
Colonial Bleaching and Printing Co.Limited
Montmorency Cotton Mills Company, Limited.
Dominion Textile Co.Ltd. 1905 Amalgamation
Mt.Royal Spinning Co.Ltd. Leased in 1910. Purchased in 1920
1910 Purchase
Dominion Textile Co.Ltd. 1922 Reorganization
Drummondville Cotton Co. Limited. Subsidiary
1929 Purchase
Sherbrooke Cotton Co.Ltd. Subsidiary
1934 Absorbed

Complete records of all the Companies shown on the above chart have not been available to the Commission. The oldest record available to the Commission was the second Minute Book of the Hudon Cotton Company commencing on the 19th February, 1878. (Page 5660).

A dividend of 10% on the capital was declared by this Company for the year 1878 (page 5662). In the year 1880 a stock bonus of 33% was issued, increasing the capital to $403,330.34. In 1881 and 1882 dividends were paid at the rate of 10% per annum on the increased capital. In the year 1883 the Company had a profit and loss balance of $431,467.11 (page 5668), the outstanding capital stock amounting to $420,000. In 1883 a stock bonus of $15,000 was given to the Manager, Mr.W.I.Whitehead. The authorized capital then was $600,000. By By-law on the 9th February, 1883, a stock bonus of $420,000 was authorized, $180,000 from the capital stock in the treasury and $240,000 to be issued from capital stock after an application had been made for the issue of supplementary letters patent, to increase the capital of the Company to $2,000,000.

Minute of the meeting of the 15th February, 1884, throws some light of a historical nature, as indicating the responsibility of this industry to its employees, and that the closing of mills in times of depression, is not of recent development:

> "Your Directors have the pleasure of laying before you the Eleventh Annual Report of the Company, operations for the year 1883, and before reading the different accounts would state that they are made up to the 31st October being only 10 months work of the mill. This was done during the stoppage of the works in November which your Directors in the interest of the Mill and the Cotton Trade generally considered in their judgement as the best thing to do in order thatvstocks might be reduced and regular prices for the goods maintained, consequently the profits are for 10 months only-----------------------------------"

In 1882 a new Company was organized known as the Hochelaga Cotton Manufacturing Company Limited, in which the Hudon Cotton Company, was amalgamated with Le Compagnie de Filature Ste. Anne Limitee, which is spoken of as the Ste. Anne Spinning Company.

The authorized capital stock of this Company was $2,000,000, divided between the shareholders of the Hudon Cotton Company and the shareholders of the Ste. Anne Company in the proportion of one share to each shareholder of the Ste.Anne Company for every two shares held by them. This required the issue of capital stock to the amount of $1,170,000. The two companies when amalgamated had 1800 looms and 92,700 spindles.

A dividend for the year 1885 was declared at the rate of 6% per annum on the outstanding capital. In the year 1886 dividends were paid at the rate of 10% on the outstanding capital. In 1887 and 1888, dividends were maintained at the rate of 10% per annum on the outstanding capital.

In 1889 the mill of the Magog Textile and Print Company was purchased for $350,000, $50,000 of which was payable in stock.

In 1890 a proposal was put forward by English interests to buy up all the cotton mills in Canada. The Directors expressed a willingness to sell the three mills owned by the Company for $3,000,000, agreeing to take one-third stock in the new Company.

In September, 1890, at a special meeting of the

shareholders, the President, A.F.Gault, stated to the meeting that for a long time his attention and that of Mr. Morrice, had been engaged in the acquisition of all the grey cotton mills, a list of which is set out as follows:

The Halifax Mill
The Windsor Mill
The Moncton Mill
The St.John Mill
The Coaticook Mill
The Chambly Mill
The Kingston Mill
The Brantford Mill

The proposal was to incorporate a new Company with a capitalization of $4,000,000. It was suggested that the whole of the mills could be purchased for $1,250,000 or less.

At a meeting held on the 12th December, 1890, the shareholders authorized the purchase of these companies (page 5699), and authority was given for an application for a Dominion charter for Dominion Cotton Mills Company Limited. Authority was given for the sale of the Hochelaga Cotton Company to Dominion Cotton Mills Company Limited for $1,277,000 in stock of the new Company, to be distributed to the shareholders of the Hochelaga Company pro rate to the shares owned by them respectively.

Dominion Cotton Mills Company Limited was incorporated with a share capital of $5,000,000. A bond issue was authorized to the extent of $1,500,000 to raise money for the purpose of purchasing the mills heretofore mentioned. The purchase of the Coaticook, Nova Scotia (Halifax), Craven (St.John), Kingston, Moncton and Windsor Cotton Companies, and two others, was approved, to cost $1,100,000. The mills mentioned were taken over in 1890 and the other two, being the Chambly Mill and the Slater-Winzy (Brantford) were taken over in 1891.

The Company paid dividends at the rate of 10% during the years 1890 and 1891 on the outstanding capital.

After the amalgamation in the year 1892, the Company had

Looms in operation	4,300
Hands employed	3,200
Annual payroll	$748,438. or an average

per employee per annum of $234. (page 5714)

In 1891 (page 5611) stock to the value of $250,000 was issued for cash. This brought the issued capital up to $1,527,000.

In September, 1892, an issue of stock was authorized to the amount of $1,517,700, 90% of which was bonus and 10% paid for in cash. These shares were issued one share for every share held in the Company.

In the report of April, 1893, it is stated that the past year was one of the best that Company had experienced. Production had been increased from 8,000,000 yards to 12,000,000 yards. Four quarterly dividends were paid amounting to $174,367. This was apparently at the rate of 6% on the new capital of $3,033,600. The report shows:

Looms in operation	4,500
Hands employed	3,400
Annual wages	$810,000, or an average

per employee per annum of $240. (page 5726)

The following is an extract from the report:

> "You will have noticed that there had been considerable agitation for some time past in and out of Parliament with regard to a revision of tariff.----- There will doubtless be some change in the tariff, but whatever be the result we think and believe this company will always be in a position to earn a good respectable dividend." (page 5726)

At a Board meeting held on the 30th January, 1894, a report was made as to the value of the properties held by the Company. The values were as follows:-

Hochelaga	$1,516,677.01
Magog	1,125,303.78
Ste. Anne	499,309.59
Coaticook	136,640.90
Halifax	387,716.20
Moncton	261,822.72
Windsor	205,132.30
Chambly	48,000.00
Kingston	211,349.01
Brantford	182,686.00
Winzy Mill	40,968.00
making a total of	$4,615,605.51

Dividends were paid for the year 1893 at 8% per annum on the outstanding capital.

In a report to the shareholders dated 12th April, 1894, disappointment is expressed in the new tariff "now before Parliament." It is stated that the tariff was 5% less on many of the goods produced by the Company than the Committee of Management representing the Company tried to secure. The report states "Your Directors, however, are determined to make the best of it and although the profits will be considerably lessened they feel confident a fair dividend can be made." (page 5728).

The profits for the year were $355,684, out of which $242,688 was paid in dividends. The sales for the year were $2,876,349.55. It will be noted that the profits for the year amounted to 12¼% on sales.

In the Annual Report read at the Annual Meeting of the 10th April, 1895, the Directors stated that there had been a bad state of trade prevailing throughout the United States of America and England and there was "terrific" competition going on more or less throughout the year.

The dividend paid for the year was at the rate of 7½% on the outstanding capital. The profit for the year was $326,777. The sales were $2,818,743, or 11.5%

profit on sales.

The report shows that the Company had at this time a surplus of $448,351.19 and a Contingency Account of $540,468.91. (page 5731)

In the report to the shareholders of 8th April, 1896, (page 5731) the Directors complained again of "very close competition" from England and the United States of America. The net profit for the year amounted to $442,916,29 on sales amounting to $3,059,892.88, or 14.47% on sales. Dividends were paid at the rate of 6% on the outstanding capital, and it is stated in the report that the Company has a surplus of assets on capital of 36% (page 5732).

In the report to the shareholders at the Annual Meeting held on the 9th April, 1897, the Directors stated that business for the past year had been somewhat disappointing "owing to the stagnation of business all over the Dominion, caused to a great extent by the uncertainty in regard to the tariff, and from very severe and close competition in England, and more particularly with the United States of America." The report goes on to say: "We are expecting a revival of business as soon as the tariff is settled, and should the duties be maintained, as we are led to expect they will be, we are confident that in a very short time our stock will soon be disposed of and propperity will once more set in upon us." (page 5733)

The profits for the year amounted to $256,756.91 on sales of $2,690,078, or at the rate of 9½%. At this date the Company had:

Looms in operation	4,384
Number of spindles	200,000
Hands employed	2,950
Annual wages	$787,455 or an average
per annum per employee of	$266.

The Directors reported a considerable addition and extension to their Hochelaga Mill; that they had materially improved the Magog property, and that altogether the property is in excellent condition.

In the report to the shareholders on the 4th April, 1898, (page 5735) the Directors stated that they have made drastic changes in the management of the Company. Mr. C. R. Whitehead was appointed Manager of the Company.

It is stated in the report that the results of the first half of the year were very disappointing. However, after writing off $156,199.83 for depreciation, what is stated to be in the report as "the large sum" of $71,288.61 for repairs, the operations showed a profit of $344,783.22 on sales of $3,080,861.49, or 11% after depreciation and repairs.

The report shows:

Looms in operation	4,460
Number of spindles	202,000
Hands employed (over)	3,000
Annual wages	$830,762.78 or an

average per employee per annum of $277. (page 5737)

In the report to the shareholders on the 13th April, 1899, the Directors stated that the result of the operations for the year were very satisfactory. After writing off $83,048.12 for repairs, the profits amounted to $435,888.95 on sales of $2,942,179, which is 14.8%. Dividends were paid at the rate of 6% per annum on the outstanding capital. The report shows:

Looms in operation	4,248
Number of spindles	192,166
Hands employed (about)	3,700
Annual wages	$917,962, or an

average per employee per annum of $247.

The report states that during the year very great additions and improvements have been made in the machin-

ery and construction of the mill. It is expected by the end of the year nearly all the mills will be so improved that there will be considerable financial gains arising from the new system that will by that time be inaugurated. (page 5739)

At the Board Meeting held on the 27th December, 1899, an issue of $1,000,000 in Preference Stock was authorized to provide funds to retire a loan from the Bank amounting to a million dollars, which money had been borrowed to remodel the mills. The stock bore interest at the rate of 6%, to be cumulative.

In the report to the shareholders on the 11th April,1900, it is stated that profits for the year were not as large "as we would have liked", but this was owing to a great number of changes and remodelling of nearly all the mills during the past year and that much machinery was stopped during the reconstruction. Profits, after writing off $80,423.59 for repairs, amounted to $315,216. Sales for the year amounted to $3,357,661, on which the profits amount to 9.4%. (p.5742)

Looms in operation	5,139
Numberof spindles	208,140
Hands employed	3,800
Annual wages	$918,228.19 or an

average per employee per annum of $242.

At a meeting of the Board on the 26th of June, 1900, it was stated that the Company had during the last year enlarged and improved its plants at Magog, Hochelaga, Ste. Anne and other points. A By-law was ratified to provide for the issue of $1,000,000 in Preference Stock, to be issued to shareholders one share for every three of their present holdings to be paid for in instalments on the 1st of August, September, October and November, 1900.

At the Annual Meeting held in April, 1901, (page 5745) it was stated that the improvements had now been completed, and, notwithstanding a stoppage caused by changing of machinery, the gross profits of the Company were more than they had made in any previous year. (In the report, gross profits as referred to apparently mean net profits before payment of dividend and bond interest.) The profits before dividends amounted to $652,335.09 after charging off "the large sym of" $80,339.69 for repairs, which amounted to 18.33% on sales of $3,557,095.15.

Looms in operation	5,140
Number of spindles	208,976
Hands employed	4,000 (page 5746)

It is reported that they had secured legislation exempting from municipal taxation the mill property at Magog, and that an exemption had been obtained at Kingston for 20 years. "This with exemption at Moncton, Windsor and Halifax ought to be considered a very valuable arrangement in favour of the company."

The motion was made that a report of the Company's affairs be sent to the shareholders. It was stated that no other manufacturing company sent printed statements to the shareholders and that it was not in the interests of the Company to do so. The motion was withdrawn.

At a meeting of the Board on the 31st October, 1901, (page 5747) a resolution was passed that in view "of the large expenditures incurred in putting the various properties of the Company in first-class condition and also with the object if reducing the floating liabilities of the Company, not to pay the quarterly dividends heretofore paid on the 1st December."

It was decided to send copies of the resolution to be

inserted in the financial columns of the Gazette and Le Journal and that circular copies be sent to each shareholder.

A Committee appointed to look into the affairs of the Company had come to the conclusion that the large loss shown in the first six months had been caused by the purchase of raw cotton at very large figures and not having sold their manufactured goods at a proportionate advance. (Page 5748)

At a meeting of the Board held on the 29th January, 1902, the President stated that the Board had received a proposal for the acquisition of Merchants Cotton Company, Limited, by Dominion Cotton Mills Company Limited. The plan proposed was to issue $3,200,000 7% Preference Cumulative Stock, $1,700,000 to be offered to the share holders pro rata, $1,500,000 to be held in the treasury to be exchanged for the stock of Merchants Cotton Company Limited, at par. An alternative proposal was put forward, (page 5748) and arrangements were made for a meeting the following day with representatives of Merchants Cotton Company Limited.

In the report to the shareholders on the 7th April, 1902, it was stated that trade had been demoralized by the reduction of prices in the American and English markets. (page 5752) The management was blamed for losses, and the Directors had asked for the resignation of the management. It was reported that they had changed the method of selling by separating the manufacturing end of the business from the selling end, and that the selling had been given to a firm in close touch with the buyer. A loss was reported amounting to $98,763.28. Three dividends were paid amounting to $136,512.00.

Looms in operation	4,942
Number of spindles	207,987
Hands employed	3,727

Sales for the year $3,243,771.57 (p.5753).

In the report to the shareholders at the Annual Meeting in April, 1903, (page 5754) it is stated that the results for the year had been very satisfactory, "especially when we consider the keen competition which we have had to meet from the English market, owing to the preferential tariff in favour of Great Britain."

The profits for the year, after writing off "the large sum of $73,426.37 for repairs and betterments," amounted to $261,477.66, or 8% on sales amounting to $3,300,169.46.

Looms in operation	4,962
Number of spindles	204,976
Hands employed	3,500

Annual wages $886,846.26 or an average per employee per annum of $253.00. (p.5755)

At a Board meeting held on the 17th September, 1903, it was reported that a meeting of cotton mill representatives had been called by Mr. Clouston (p.5755) "with a view of bringing about a better relationship betwen the three companies which are now competing with one another." At this meeting a sub-committee composed of James Crathern and Senator Mackay representing Merchants Cotton Company Limited, H.S.Holt, representing Colonial Bleaching & Printing Company Limited, Senator Forget and S.H.Ewing representing Dominion Cotton Mills Company Limited, and David Morrice Sr., was appointed. (page 5756)

At a meeting of the sub-committee it was proposed to have a valuation made by experts of the properties of the Merchants Cotton Company Limited, the Colonial Bleaching & Printing Company Limited, and Dominion Cotton Mills Company Limited, and that each Company appoint representatives to act. Senator Forget and S.H.Ewing

were appointed to represent the Dominion Cotton Mills Company Limited. (Page 5756.)

At a meeting of the Board held on the 10th November, 1903, a draft proposal was read providing for the amalgamation of the three companies.

In the report to the shareholders at the Annual Meeting held April 28, 1904, it was stated that the result for the year had been:

> "very satisfactory, especially when we consider the keen competition which we still have to meet from the English market owing to the preferential tariff in favour of Great Britain." (Page 5764).
>
> " To form an idea of this severe competition we have only to mention the figures of the imports of cotton goods into Canada from Great Britain during the past three years, which, according to the Government Statistician, amount to $14,661,277."

- In spite of this, this Company's sales jumped from $3,300,169.46 to $3,942,558.89, this being the record high point in the history of the Company. The profits, after writing off "the large sum of $81,892.24 for repairs and betterments" amounted to $297,546.03. Profits on sales amounted to 7.6%. The sum of $195,166.57 was credited to profit and loss account. The surplus in that account stood at $864,723.17.

Looms in operation	4,974
Number of spindles	207,186
Hands employed	3,000
Annual wages	$806,100 or an average per

employee per annum of $268.

At a meeting of the Board of Directors held on the 14th December, 1904, a proposal was put forward of a scheme for the purpose of acquiring the capital stock of Dominion Cotton Mills Company Limited, Merchants Cotton Company Limited, Montmorency Cotton Mills Company Limited and Colonial Bleaching & Printing Company Limited. A draft circular was settled for the purpose of explaining the offer of a syndicate, which circular it was proposed to send to the shareholders.

The net manufacturing profit for the 13 months amounted to $48,833.37. Sales were $3,245,037.24.

Looms in operation	4,975
Number of spindles	208,386
Hands employed	3,300

Annual Wages $740,328.90 or an average per employee per annum of $224.

The syndicate referred to in the Company's minutes was a syndicate composed of 16 men organized for the purpose of incorporating Dominion Textile Company Limited. (p.5621-5622) Under the provisions of the syndicate agreement these men agreed to contribute one million dollars to be deposited with the Royal Trust Company of the City of Montreal in proportions as follows:

David Yuile	$90,000	J.P.Black	$90,000.
G.A.Grier	90,000	D.Williamson	90,000.
C.H.Gordon	100,000	Hon.L.J.Forget	100,000.
Rudolphe Forget	40,000	H.V.Meredith	100,000.
H.S.Holt	100,000	S.Carsley	50,000.
Hon.Robert MacKay	50,000	David Morrice	40,000.
F.C.Henshaw	20,000	James Rodger	20,000.
Geo. Caverhill	10,000	John Baillie	10,000.

Under the terms of the agreement the subscribers were to pay the amount of their subscriptions before the 1st February, 1905. The subscription was subject to the Royal Trust Company, obtaining a majority of the shares of the following cotton companies:

Dominion Cotton Mills Company Limited,
Merchants Cotton Company Limited,
Colonial Bleaching & Printing Company Limited,
Montmorency Cotton Mills Company Limited,

for the benefit of the syndicate by 1st February, 1905.

These shares to be obtained in accordance with circular letters addressed to the shareholders of the respective companies, dated 16th ahd 29th of December,1905.

The Royal Trust Company was instructed by the syndicate to dispose of the sum of one million dollars by paying $500,000. in exchange for $500,000 in preference stock at par, and to pay $500,000 to Dominion Textile Company Limited, and to transfer to Dominion Textile Company Limited, 15,200 shares of Dominion Cotton Mills Company Limited, 7,560 shares of the Merchants Cotton Company Limited, 5,005 shares of the Montmorency Cotton Mills Company Limited, and 1,500 shares of the Colonial Bleaching & Printing Company Limited, upon the condition, however, that Dominion Textile Company Limited shall forthwith return all the said shares held by it to the Royal Trust Company to be held as security for the payment of the bonds of Dominion Textile Company Limited.

Dominion Textile Company Limited was to agree to allot to the syndicate or its nominees five million dollars of common stock and $1,534,500. of its bonds and $718,700 of its preferred stock fully paid up and non-assessable.

In the event of the syndicate transferring to Dominion Textile Company Limited, any larger amount of shares in any of the four cotton companies, the syndicate was to be entitled to receive an additional amount of bonds and preferred stock of Dominion Textile Company Limited, proportionate to the number of shares transferred by them.

The Royal Trust Company agreed to give an irrevocable power of attorney to such persons as may be named from time to time of the Board of Directors of Dominion Textile Company Limited to vote on all shares held by it at shareholder's meetings of the four cotton companies.

In the event of a majority of the shares not being obtained in any company the Royal Trust Company agreed to hold such shares until the 15th March, 1905, unless directed to return them to the original owners by the majority in value of the contributors to the syndicate fund of one million dollars (p.5625).

Circular letters were sent out to shareholders of the four cotton companies containing the respective proposals to take over the shares of each company on the terms agreed upon among the members of the syndicate . The proposal was carried out and is fully set forth in Exhibit 329, (p.7) The shareholders of the Dominion Cotton Mills Company Limited received 50 cents on the dollar par value of their shares. This was paid, 25% of the par value of their holdings in preferred stock of Dominion Textile Company Limited, 25% in new bonds, the company assuming the underlying bonds.

The shareholders of the Merchants Cotton Company Limited, received .85¢ on the dollar par value of their shares, being paid 18-1/3% of the par value of their holdings in preferred stock of Dominion Textile Company Limited, and 62-2/3% in bonds of Dominion Textile Company Limited, the new Company assuming $162,000 in underlying bonds.

The shareholders of Montmorency Cotton Company Limited, received 120% of the par value of their holdings, 20% being paid in preferred stock and 100% in bonds of Dominion Textile Company Limited, which Company assumed $450,000 in underlying bonds.

Shareholders holding $300,000 par value stock of the Colonial Bleaching & Printing Company Limited, received 166-2/3% of the par value of their stock, 66-2/3% being paid in preferred stock and 100% in bonds of Dominion Textile Company Limited, which Company assumed $47,000 in

in underlying bonds. Shareholders holding $4,200 in par value stock of Colonial Bleaching and Printing Company Limited, received 166-2/3% in preferred stock.

The result of this whole transaction was that the preferred stock and bonds of Dominion Textile Company Limited, were ultimately issued in sufficient amount to purchase all the outstanding shares of the four cotton companies in question. These bonds or shares were issued directly to the shareholders of the cotton companies in question, and it left in the hands of the Royal Trust Company $5,000,000, in common stock of Dominion Textile Company Limited, which was duly delivered to subscribers to the syndicate pro rata according to the amount each subscribed.

The Royal Trust Company was not successful in obtaining 100% of the shares in the Dominion Cotton Mills Company Limited, or in the Merchants Cotton Company Limited. However, directors were elected to the Boards of each of these companies who were nominees of the directors of Dominion Textile Company Limited.

It was arranged between the two companies with similar boards that in each case the current assets should be sold outright to Dominion Textile Company Limited, and the properties were leased to Dominion Textile Company Limited, under leases sufficient to pay 4% on the capital of the Company plus an amount sufficient to pay the interest on the outstanding bonds of the Company.

Certain shareholders of the Merchants Cotton Company Limited, and Dominion Cotton Mills Company Limited, protested against their assets being dealt with in the manner agreed upon, and in the case of the Dominion Cotton Mills Company Limited, an action was taken which eventually reached the Judicial Committee of the Privy Council. The decision of the Privy Council was in favour of the Company

and the arrangements eventually culminated in securing all the shares of the respective companies and the complete transfer of the assets was completed in 1917.

The provisional directors of Dominion Textile Company, Limited, were: Hon.L.J.Forget, David Williamson, George A.Grier, Charles B.Martin, J.P.Black and the Hon. Robert MacKay, all of whom were members of the syndicate. (p.5844-B)

The first Annual Meeting of the Company was held on the 31st May,1906. (Page 5853). The advantages of the amalgamation were pointed out to the shareholders, one of them being that the management was able to manufacture different lines of goods at the mills best adapted to produce the same, thereby getting longer runs of cloth and saving on the constant changing of looms.

The sales for the year amounted to $8,131,004.95, being an increase of $1,475,249 over the sales of all four combined companies in the previous year.

Looms in operation	8,226
Number of spindles	368,826
Hands employed	6,000

Annual wages, over $1,750,000 or an average per employee per annum of about $291. (p.5856)

The Chairman stated that there had been a number of improvements in the mills and these had been taken off running expenses. $200,000 had been spent for betterments and repairs. (Page 5858)

The details of the profits year by year of Dominion Textile Company, Limited, are set out in Exhibit 917.

In the report to the shareholders at the Annual Meeting held on the 30th May 1907, it is stated there are:

Looms in operation	8,048
Number of spindles	386,905
Hands employed, about	6,000
Annual wages, over	$1,750,000

An increase in wages was reported.

"The mills have been kept up to a high standard of excellence." (Page 5860)

The Chairman stated to the meeting:

> "I might say that in making up the statement for this year, we have taken in the stocks of cotton, manufactured and unmanufactured goods, on a very conservative basis. We feel that while these have been very prosperous times for the cotton business, the mills have had to pass through other times, as you know, and these times will doubtless come again and perhaps before very long. And so I may state that things have been taken in that way, so that whenever the demand at home and other places to a certain extent slackens off, we will be prepared for it."

The Chairman went on to state:

> "------we have a very low tariff in Canada, and compared with other countries, higher wages (we have had to raise the wages once or twice which we do not complain of) taking those things into consideration we have as I say acted on a very conservative basis. I think we ought to be prepared for these times, as we must not expect that times like the present in the cotton business are going to continue forever." (Page 5861).

At the Annual Meeting held in May, 1908, the Directors reported that $850,472.78 had been spent during the past three years for repairs, improvement to plants, and new machinery. "All of this large amount had been charged to working expenses and no increase has been made to the fixed assets."

It is stated in the report:

> "--------owing to the business depression which set in last fall, and the very low tariff on cotton importations from Great Britain, which is only 15% on greys and 17½% on bleached goods, compared with duties ranging from 40 to 50% in the United States, we are beginning to feel the effect of this competition, and it has necessitated our being compelled to operate the mills on short time and also to reduce wages."

It will be noted that during this year the Company wrote off $205,825 for betterments out of operations. They paid the interest on their bonds, preferred dividend

and $250,000 on the common shares for which $500,000 had been paid in 1905, and had a surplus for the year of $44,493.36, bringing up the amount at the credit of profit and loss to $568,338.41, (page 5862) accumulated in the first three years of operation. (At page 5869 the amount credited to profit and loss at this time is stated to be $568,335.41).

The Chairman in his report made reference to a strike that had occurred. The Chairman pointed out that while times were prosperous they had raised their wages, but now that times were not so prosperous the volume of business had been reduced and they were unable to continue to pay the same rate of wages. He had hoped that the men would be willing to take a slight reduction, and while some of the men were willing to do so, their leaders advised them not to, and they had not agreed to. (p.5865)

At the Annual Meeting of May 27, 1909, it was reported that there were:

Looms in operation	7,950
Number of spindles	380,973
Hands employed, about	5,600

Annual wages $1,500,000 or an average per employee per annum of $268.

The Chairman went on to say that the strike had been settled and stated that nearly all the hands had returned to work at Magog.

At the Annual Meeting of 30th May,1910, it was reported:

Looms in operation	7,480
Number of spindles	378,656
Hands employed, over	6,000

Paid out in Mill wages during past five years over $8,500,000 or an average per employee of $1,416. or $283.00 per annum.

During the year the capacity of the Magog Print Works had been increased, thereby centralizing all the printing at one place and reducing the cost of operating and other expenses. (Page 5872).

It was reported that the sum of $323,581 had been written off for repairs and betterments.

In the report to the shareholders at the Annual Meeting held on the 29th May, 1911, the following was reported:

Looms in operation	8,997
Number of spindles	427,082
Hands employed, over	6,500
Annual wages	$1,874,612.46 or an average

per employee per annum of $288.00

In September, 1910, the Company entered into an arrangement with Canadian Cottons Limited to lease from Canadian Cottons Limited the Mount Royal Spinning Mill for a period of ten years with an option to purchase.

At the Annual Meeting of May, 1912, it was reported that for the past year the Company had written off the sum of $204,078.51 for repairs and betterments. The reports from year to year do not disclose how much was written off each year. At times it is referred to as "the usual amount", and at others the amount is stated.

Looms in operation	9,335
Number of spindles	427,533
Hands employed	7,500
Annual wages	$2,000,000 or an average

per employee per annum of $266.

It was stated that the Company had orders on hand sufficient to keep the mills operating at full capacity for some time.

At the Annual Meeting of May, 1913, it was reported that there had been written off for repairs and betterments the sum of $241,482.79.

Looms in operation	10,237
Number of spindles	459,786
Hands employed	7,500

It was also reported that a new mill had been erected at the Magog plant which contains 500 additional looms.

300 additional looms had been erected in the Mount Royal Mill, and an extension to the Ste. Anne's Mill in Montreal was under construction.

At the Annual Meeting of May 27, 1914, the following was reported:

Looms in operation	10,074
Number of spindles	463,258
Hands employed	7,000

Repairs and betterments written off amounted to $294,362.

Sales amounted to $8,899,718.77 (Page 5881)

At the Annual Meeting of May, 1915, it was reported that there had been written off for repairs and betterments $204,049.20.

Looms in operation	10,105
Number of spindles	464,144
Hands employed	7,000
Sales amounted to	$7,643,674.39

At the Annual Meeting held in May, 1916, it was reported that $350,155.94 had been written off for repairs and improvements to the mills.

It was reported that since the outbreak of the war the Company had added a large number of lines not previously

made in Canada to the already large lines of cloth.

Looms in operation	10,000
Number of spindles	464,144
Hands employed	7,000
Sales amounted to	$10,438,098.87

The Chairman reported that the statement had been made up in the most conservative manner, and the one reason why business was good was on account of the difficulty in getting goods across from the other side. He stated as follows:

> "I think we will from now on be in a better position to compete with the English market than we were previous to the war." (Page 5885)

At the Annual Meeting held in May, 1917, it was reported that $396,642.60 had been written off for repairs and betterments, and that the amount paid out in wages amounted to 21% in excess of the previous year. It was also stated that,

> " as usual all the mills of the company have been maintained in first class condition."

Looms in operation	10,000
Number of spindles	464,144
Hands employed	7,000
Sales	$13,375,750.

It was stated,

> " In the Inventory, the stocks have been reduced almost to a minimum, and what is on hand is being taken in on a conservative basis."

Dividends were increased from 6% to 7% on the $5,000,000 of outstanding Common Stock.

Total profits for the year amounted to $1,582,705.77. (Page 5885).

Mr. George Caverhill, a member of the original syndicate stated:

"While in years gone by we have had good things to say about the directors, this year it is more than ever deserving, and I hope all the Directors will understand how we appreciate their services, because those of us who are interested in the other companies know it has been a very hard and arduous year to pull through, not only with the market prices, but with the strikes and labour troubles, and you people handle them very very well.

I ask the prayers of my fellow shareholders that you may have as good a year next year and not run up against any harder things than you have had this year." (Page 5888).

If Temple Thurston accurately protrays human nature at the time of the Crusades, time has made few changes:

"and in war time there is need of buying and selling in whatever cause it be waged and the profit is not less or more because that cause is sacred or profane."

The report to the Shareholders at the Annual Meeting of May 27, 1918, shows that the profits for the year amounted to $1,873,371.41 after deducting all manufacturing charges and making provision for depreciation. After providing for interest on bonds, dividends on Preferred and Common Stock, rental of Mount Royal Mill, and Bad Debts, the balance added to Profit and Loss Account brings this account to $2,189,194.98. (Page 5889).

Sales for the year were	$16,850,278.78
Looms in operation	9,500
Number of spindles	450,000
Hands employed	6,500

It was reported that there was considerable business coming to Canada from the United States of America due to war orders. (Page 5891).

At the meeting of Shareholders of May, 1919, it was reported that the supply of labour had improved, and that a Pension Fund system was to be inaugurated. The Chairman stated:

> "In connection with the report I would just like to say that there has been some talk about the large profits this Company has made and comments have been made in the newspapers. It is true we have made pretty large profits during the last year, but I would like to explain these profits are very abnormal as it is what has happened in practically every industry doing any cotton business."

It was explained that there were two reasons why they had made such large profits; First, because they had purchased about 13,000,000 pounds of raw cotton at a low price, and, secondly, that they had large orders for the Government of the United States of America.

It was reported that profits in the English mills were very high.

It was stated that wages had gone up enormously, and that they had given 50 to 100% advance over 1914.

At the Annual Meeting of May 31, 1920, it was reported that the Company had purchased the Mount Royal Spinning Mill.

It was further stated that in 1914 a mill equipped with automatic looms which cost in the neighbourhood of $30.00 per spindle or $1,200.00 per loom, now cost $85.00 per spindle or $3,400.00 per loom.

It was also stated that an addition had been built to the Magog Plant which would increase its capacity from 64,000 to 93,000 spindles and that machinery had been purchased for a fine white cotton mill of 1,500 loom capacity.

The Chairman stated to the meeting that their prices had,

> "at all times been based on a reasonable profit."

The Chairman went on to state:

"We have got a very good profit on our business and we are in a very sound financial position and although we have not shown quite as large a profit as last year, the affairs of this Company and the reserve which has been set up in the various departments to take care of any depreciation which may come, are ample for all purposes." (Page 5900)

It was stated that the amount earned towards Common Stock and Surplus was $1,103,961.00, being less than 5% on the turnover.

At the Annual General Meeting of May 30,1921, it was stated:

" It may not be out of place at this annual meeting ot the company to mention that the policy which was instituted at the very inception of the Company, namely, that of concentrating our business at our largest plants, has been consistently carried out. The smaller plants have been closed up as the overhead expense connected with them was out of all proportion to the results."

The business was concentrated now at six points, namely, Montmorency, Magog, Hochelaga, Merchants, Mount Royal and Verdum.

Looms in operation	11,058
Number of spindles	530,000

It was reported that plants were closed at Halifax, Windsor and Moncton. (Page 5904).

A bonus of $35,000 was paid to Sir Charles Gordon and $7,000 to Sir Herbert Holt. (Page 5905).

It was reported at the meeting of May 30, 1921, that one of the principal difficulties for the past year had been with raw materials, prices and wages. It was stated that it was expected that wages would no doubt give them some trouble. Wages had been reduced in the United States of America and England and they were running on short time in England. It was stated that the Company had not materially reduced wages yet,

"although we are getting much better

efficiency than we were getting, due to the fact that we have been able to eliminate unproductive labour."

In the report of May 29, 1922, it was stated that prior to the rise of approximately 10¢ a pound in the price of raw cotton in September and October, the Company had purchased several months supply, and that, in a measure, accounted for the satisfactory results shown.

The balance to the credit of Profit and Loss Account amounted to $5,007,700.57, and the amount which had been set aside for pension fund, bad debts and plant renewals amounted to $2,694,254.70.

Referring to the changes in tariff which had just been brought down by the Finance Minister, it was stated that in 1914, under the British Preferential Tariff of 15% on greys and 17½% on white cottons, they were unable to meet the competition from Great Britain, and there were imported into Canada 24,000,000 yards of grey cotton and 30,000,000 yards of white cotton. It was further stated that under the present tariff of 12½% on greys and 17½% on white cottons, with exchange at $4.49, and taking into consideration the tax paid on raw cotton and supplies purchased, the margin is reduced to 2.82% on grey cottons and 5.28% on white cottons, less whatever American exchange has to be paid. At par of exchange, the protection on greys would be 11.85% and on white 14.45%.

The Chairman stated:

" I really cannot see myself why the Finance Minister should bleed Canadian industries for the benefit of Great Britain or any other country." (Page 5912.)

The minutes show:

Looms in operation	11,023
Spinning spindles	530,000
Twisting spindles	17,000
Hands employed	8,000

During the same year a Special General Meeting was called on the 22nd December, 1922, to authorize an application for Supplementary Letters Patent extending the powers of the Company, giving authority, among other things, to amalgamate with other companies.

Just prior to this the shareholders had been given the right to subscribe for 25,000 shares of unissued Common Stock on the basis of one share of new stock for two shares held, at $100.00 a share.

At this time a new Company was incorporated under the name of Dominion Textile Company Limited, and in December, 1922, the whole undertaking of the old Company (Dominion Textile Company Limited) was transferred to the new Company on the basis of an exchange of Preference Stock share for share and three shares of Common Stock without par value for each share of Common Stock held in the old Company. The capital of the new Company consisted, as shown on Page 5927, of 19,406 shares of Preferred Stock of a par value of $100.00 each, and 225,000 shares of Common Stock, no par value.

At the meeting of the new Company held on the 18th June, 1924, it was stated that since the inception of Dominion Textile Company Limited 19 years ago, 2½% on sales had been distributed in dividends on Common Stock.

It was stated that the strong financial position of, the Company was due largely to the great increase in value of the properties that had been acquired in 1905. These properties were in a demoralized state at that time, but had great potential value, which fact had been completely demonstrated, and had gradually been brought to a high state of efficiency. (Page 5930).

The 225,000 shares of Common Stock was carried in the Balance Sheet at $15,000,000. There were sold for cash prior to the incorporation of the new Company, 25,000 shares. Three shares for one were issued in the new Company. The net result would be that for the $5,000,000 in Common Stock alloted to the original incorporators for $500,000 there was now outstanding 150,000 shares of Common Stock which were carried in the Balance Sheet at $10,000,000. (Page 5932.)

It was stated, however, to the shareholders,

> " the duty, as you know, has been cut down in the last few years, and that is another factor which makes it difficult for us to make a very great profit."

It was stated that during the year a Pension Fund was established, that for the past seven years $7,000 per annum was required, and it was suggested that $10,000 be set aside during the current year.

At the Annual Meeting held in May, 1925, the Chairman stated that of 97 Lancashire Cotton Spinning Companies having a total paid-up capital of £13,000,000, 57 paid dividends which amounted to only $1\frac{1}{2}\%$ of the amount of paid-up capital. The other 40 of the 97 companies were unable to make any payment; that in the United States of America things were not very good at all, especially in the North, and,

> " I think we may congratulate the shareholders on the showing we have made."

It was stated that $100,000 standing at the credit of Pension Fund Reserve in the books had been transferred to a committee in trust pending the incorporation of a separate trust and the appointment of a separate committee to administer all pensions. (Page 5938).

It was stated the the Company had no export trade whatever, and no probability of having any.

It was stated to the meeting that 50% of the imports could be eliminated if the Company had the opportunity of working under an equitable tariff.

At the meeting held on the 11th May, 1927, it was stated that the Company had built a considerable addition to the Montmorency Mill, and that within 60 days they would have completed the revamping and re-aligning of the machinery in the plant from one end to the other, and that this would reduce the cost of operation and handling. At all the other plants considerable machinery had been added throughout the year, and particular attention had been paid to the carding and picking. There were few cards left that are ten years old. The average life of a card is from 30 to 40 years. (Page 5949).

It was decided to add eight additional printing machines to the Magog plant, with a general re-vamping of the plant throughout to take care of the particular requirements.

Complaint was made that competition was very keen, particularly from Great Britain, in grey and medium class white goods; that the protection afforded was not equal to the actual difference of labour in Canadian mills and the Lancashire mills.

It was stated, however, that for the next three or four months they expected to be operating as nearly to full capacity as at any time during the past two or three years.

At the meeting of May 16, 1928, it was stated that all plants had run to capacity for the first six months of the year. During the last six months it had been

reduced from between 75% and 50%. During the year the Tariff Advisory Board had reviewed the conditions in the cotton industry. The Chairman found it difficult to reconcile the facts laid before the Board with the recent tariff submitted by the Minister of Finance. The products of the Company were given a reduction of from 2½% to 7½%, in addition to a number of reductions to the already inadequate tariff.

It was also stated that during the year a considerable number of extensions to the plant had been made, and that a building had been added to the Montmorency plant.

The Chairman stated that a great deal of money had been spent in getting new plant and machinery and in keeping things up to-date, and that in weaving especially they had many machines now that they did not have before. (Page 5956).

The Chairman continued:

> " In the Mount Royal mill we took Lord Willingdon over and he remarked 'I do not see many people in this mill at all'. As a matter of fact, there are not very many because (depending on the class of goods) we have up to 60 looms to the weaver, and that is only one of our mills. Under these conditions it is no wonder there are not so many people to be seen." (Page 5957).

It was stated by Mr. Daniels:

> " There have been more changes in the process of manufacturing cotton goods in the last three years than in the last 50 to 100 years. By means of time studies we have determined cause and effect and have gone out to eliminate waste. The causes for warp breaks, for instance; the result has been that we have in the Mount Royal Mill reduced the warp breaks from what was normal condition of about 25 breaks per loom per day to between 4 and 6 a day, and that has allowed the weaver to handle 4 or 5 times as many looms as he or she was handling before, without any delay in the work". (Page 5957).

On the 7th June, 1929, a special meeting of shareholders was called to ratify a by-law to increase the

authorized common share capital of the Company from 225,000 to 350,000 shares. This was to provide funds for the purchase of the Drummondville plant and other purposes. 45,000 of these shares were issued at $75.00 per share one to each holder of 5 shares of common stock.

At the annual meeting held 15th May, 1929, it was reported that the Sherbrooke Cotton Company Limited, and the Drummondville Cotton Company Limited, had been purchased.

The Chairman stated:

> "that they had had a very satisfactory year in many respects."

At the meeting of the 26th June, 1930, the Chairman complained that there was no effective application of the dumping clause in the tariff nor any attempt made to apply the British content clause to the British Preferential Tariff on British cottons. (Page 5963).

It was stated that owing to conditions it was deemed necessary to close the Kingston Mill; that the work of reconditioning the machinery in the Drummondville and Sherbrooke plants had been completed and that the plants were in excellent condition.

It was stated that for over two years the country had been overrun with surplus quantities of reserve stocks of one kind or another, and that the stocks were dumped over here and that representations had been made to the Government as to that.

The Chairman stated:

> "Whether the Government intends to enforce the Act or not is questionable, but until ports of entry for textiles are brought down to not more than three or four, with competent experts put in charge, this country is going to be up against the same proposition."

At the annual meeting held in July, 1931, it was stated

that the new Government had revised in part the cotton xschedule and afforded a very welcome and necessary relief. It was also stated that prices were extremely close.

At the Annual Meeting of June, 1932, it was stated that sales were reduced 9.2% for the year, although the company had produced and shipped 1,661,000 more yards of cloth.

Mr. Daniels stated that he was glad to be able to say that during the last three months the Government had taken steps to stop the dumping of cotton goods into Canada, with beneficial results. (Page 5971).

It was stated that a report had been circulated that Mr. Ferguson, the High Commissioner for Canada, in London, had been quoted as saying that the effect of the approaching Imperial Conference would undoubtedly result in the closing of a number of shoe and textile factories in the Province of Quebec.

Mr. Daniels stated that the report had been subsequently denied, but that he had had innumerable inquiries with regard to the effect that the approaching conference would have on Canadian industry and particularly on the cotton industry.

Mr. Daniels' statement was as follows:

> " My answer is, that I cannot see how it could have any detrimental effect, for the following reasons:-
>
> The cotton industry in Canada is well balanced to produce the bulk of the requirements of the trade here. It is considered that in general it is up to date in its methods of manufacturing and equipment to produce and distribute economically, considering the population and the territory covered." (Page 5972).

Mr. Danieals also stated:

> " A tariff is intended to preserve the home market for the Canadian Manufacturer for those goods he is capable of producing economically, and to meet those higher costs of production

that are largely beyond his control."
(Page 5976).

At the General Meeting of June, 1933, it was stated that the plants had been maintained in excellent repair, and that any manifest improvements in machinery or manufacturing methods that might tend to increase the manufacturing efficiency of the mills and lower the cost of production had been adopted.

It was stated that the dividend on the common stock had been reduced from $5.00 to $4.00 per share and that wages had been reduced 10 to 20%. (Page 5979).

At the General Meeting of shareholders held in May, 1934, it was stated that import of cotton goods under the provisions of the Ottawa - United Kingdom Trade Agreements had shown a great increase, and that importations were up 72% over the year 1932.

Wages were increased by 5%.

The dividends on the common stock were restored to $5.00 a share.

At the Annual Meeting held in June, 1935, it was stated that the duties established in 1930 constituted the minimum protection which might serve to meet the situation as it then existed; that new factors had arisen in the meantime necessitating a higher scale of duties to effect that minimum protection; and that the preferential scale of the 1930 tariff had been thrice reduced.

It was stated that the Company for many years had been taking proper steps to safeguard the position of employees and their families in sickness, death and old age. (Page 5986). That $73,154.75 had been paid in pensions to retired employees over the last year, bringing the amount paid since 1923 up to $565,997.14.

A Group Life Insurance plan was put into effect, providing insurance of $625,000 on the lives of the employees, the Company contributing a share of the premium. Accident and Sickness insurance is in effect in certain of the plants where the workers in sufficient numbers have signified their interest. In such cases the Company absorbs part of the cost of protecting the employees.

In the report to the shareholders for the year 1936, the amount of taxes paid by the Company is emphasized.

It is stated that the governments of one kind and another are the real preferred shareholders as their takings this year represent earning of $42.00 per share on the Company's Preferred issue. (Page 5990).

After referring to wages paid by the Company, the report goes on to say: (Page 5991).

> " The level of value at which Cotton and Rayon textiles can now enter Canada from the United Kingdom, the United States, and Japan, under tariff arrangements concluded in recent months, have brought matters to the point where it may be impossible to pursue our previous policy, having due regard to the ultimate welfare of all concerned. The loss involved in producing goods on our former scale, a large proportion of which may now only be sold at prices below the cost of production, is more than even our sound Balance Sheet position can be expected to stand without danger of grave impairment in a comparatively short time. We are, therefore, forced to consider proper steps to conserve the position of the Company until the situation facing us changes. These may entail considerable curtailment of manufacturing operations at our various plants throughout the Province of Quebec, but such a tendency was undoubtedly foreseen by the Government in framing its tariff policy if it was expecting, by virtue of its recent reductions in the Textile Tariffs, to increase its revenue from Customs sources. It must have anticipated that the lower rates of duty would be offset by increased importations of Textiles and realized that the inevitable result of larger imports would be for smaller quantities of such goods to be manufactured in Canada. Despite the inimical conditions under which the Textile Industry in Canada is carrying on at present, the prosperity of the Nation as constituted, and the industry is closely related

to the same essentials, and we feel
confident your Company will come through
what can only prove to be a temporary
period of adversity."

The above resume of the affairs of Dominion Textile Company Limited and its antecedents shows that between 1874 and 1934 the business of 17 cotton companies has been amalgamated in the business carried on by Dominion Textile Company Limited.

In addition to this, about the year 1929, Dominion Textile Company Limited had secured the controlling interest in its second largest competitor, The Montreal Cotton Company Limited.

In the process of amalgamation, mills have been closed in 10 different centres in Canada, namely:

Windsor	Halifax
Coaticook	Moncton
St. John	Kingston
Brantford	Chambly
Verdun	Hochelaga (Ste. Annes)

Plants have been enlarged and extended at the other centres in which mills have been operated by the Company.

The records of the antecedent companies to Dominion Textile Company Limited are necessarily incomplete. However, for the purpose of determining how the cotton industry has prospered in Canada since the introduction of a National policy of protection , it does not seen unfair to take the record of the Hudon Cotton Company Limited, Hochelaga Cotton Company Limited, and Dominion Cotton Mills Company Limited, as reflecting a cross-section of the industry from 1874 to 1905.

It cannot be unfair to select Dominion Cotton Mills Limited and its chain of antecedents, in view of the fact

that the lowest price per share was paid for its stock on the amalgamation of Dominion Cotton Mills Company Limited, Merchants Cotton Company Limited, the Montmorency Cotton Mills Company Limited, Colonial Bleaching and Printing Company Limited when the business of Dominion Textile Company Limited commenced in 1905, and in view also of the fact that it was the largest unit entering the merger in 1905.

The first records of the Hudon Cotton Company Limited commenced in 1878, and shows that at that time the Company paid a dividend of 10% on its outstanding Common Stock. In 1880 a stock bonus was declared of one share for every three held. Cash dividends on the increased capital were paid at the rate of 10% per annum. which would be at the rate of 13-1/3% on the original capital. In 1883 a further stock bonus was declared of one share for every one held. The effect of this was that in five years a shareholder who had three shares of the original issue now had eight.

When the Company amalgamated with La Compagnie de Filature Ste. Anne Limitee, the shareholders of the old Hudon Company received share for share in the new Company, Hochelaga Cotton Manufacturing Company Limited. Dividends were paid in 1885 at the rate of 6%, 1886 at 10%; 1887 at 10%; 1888 at 10% on the outstanding capital stock. The dividends for these last three years would be at the rate of 22-2/3% of the original investment.

Hochelaga Cotton Manufacturing Company Limited purchased the Magog Textile and Print Company Limited in 1899, and the business of these two companies absorbed in the business which took place on the organization of the Dominion Cotton Mills Company Limited in 1890.

At the time of the amalgamation it was stated to the Special General Meeting of Shareholders:

> " It has been urged by some of our friends that this would be a good time to make an extra distribution of stock, or in other words to give a stock bonus. Although our position would fully warrant this we deemed it wiser ro pursue a conservative policy and allow the new Company to be in operation for a year." (Page 5701).

The Agreement of Sale provided that $1,277,000 of unassessable stock in Dominion Cotton Mills Company Limited be distributed to the shareholders of Hochelaga Cotton Manufacturing Company Limited pro rata, and that a stock bonus might be paid by Dominion Cotton Mills Company Limited not to exceed the difference between the price of purchase and the net actual value of the Company's properties and assets.

Bonds were issued in payment of the purchase price of all the other amalgamated companies.

In 1892 the capital of the Company was increased by $250,000, and the stock offered to shareholders at par in proportions of one to six.

In 1892 Dominion Cotton Mills Company Limited carried out the terms of the agreement with Hochelaga Cotton Manufacturing Company Limited, which recited, that all assets of Hochelaga Cotton Manufacturing Company Limited were valued at $2,668,168.24 and were purchased for $1,277,000 by issue of stock, with the agreement to issue a stock bonus for the difference. $1,517,700 in capital stock of the Company was, therefore, issued, unassessable up to 90%. The effect was that the stock bonus amounted to $1,365,930, which practically equalized the difference between the value placed upon the assets of Hochelaga Cotton Manufacturing Company Limited and the

amount paid therefor by way of stock issue.

The net result of this was that for every three shares that a shareholder held proir to 1878 he would, now hold 15.20 shares, or, on $300,000 invested proir to 1878 there was not realized $1,520,000 in shares in the Dominion Cotton Mills Company Limited, and the dividends had been paid in the meantime.

Dominion Cotton Mills Company Limited paid dividends in 1890, 1891 and 1892, of 10% on the outstanding capital

In 1893 dividends were paid at the rate of 8%, but it will be noted that this is 8% on a capitalization of $3,033,600, whereas the previous dividend was at 10% on a capitalization of $1,515,000, which would show over 40% on the original investment. (Page 5725).

Dividends were maintained at this rate for the year 1894 and until the last quarter in 1895, when it was dropped to 6% on the outstanding capital.

During the years 1896, 1897, 1898, 1899, 1900 and 1901, and for the first three quarters of 1902, dividends were maintained at the rate of 6% on the outstanding capital.

The following is a table of the profits on sales during those years:

1894	12%
1895	11.5%
1896	14.47%
1897	9.5%
1898	11%
1899	14.8%
1900	9.4%
1901	18.33%
1902	(loss)
1903	8%
1904	7.6%

It appears that from 1878, the first record we have, until 1905, there was only one year when business showed a loss, and the dividend record speaks for itself as to

the profit earned during the other years.

The share that the worker had had in the advantages of the protective tariff during this period is indicated by the average annual wage paid per individual. From the records available, the highest average was $277.00 per annum in 1888, and lowest $224.00 in 1905.

The record of Dominion Textile Company Limited, since its incorporation is clearly set forth in Exhibit 917.

Mr. Howson's summary, Exhibit 917, (Page 9), headed "Memo re Capital and Earnings, 1905 to 1936", shows that the business of the Company may be divided into three periods, namely, 1906 to 1922 inclusive, 1923 to 1928 inclusive, 1929 to 1936 inclusive.

From 1906 to 1922 there is no change in the capital structure of the Company, with the exception of an increase in the bonded indebtedness. During that period the Company paid the interest on the bonds outstanding, interest on the preferred stock at 7%, and dividends on the common stock. On the $500,000 invested in common stock by the members of the syndicate, dividends were paid as follows:

1908 to 1912 incl.	$250,000 per annum
1913	275,000 " "
1914 to 1917 incl.	300,000 per annum
1918	350,000 " "
1919 to 1920 incl.	400,000 " "
1921	500,000 " "
1922	600,000 " "

or, during the first 17 years of operation, a total of $4,975,000.

In 1923 the original common shareholders were given the privilege of purchasing one share of new stock for every

two shares that they held at par. This brought into the treasury of the Company $2,500,000 more capital. The total share capital was now $7,500,000 and, upon the incorporation of the new Company, the shareholders were given three shares of common stock in the new Company, no par value, for every one share held in the old Company, bringing up the outstanding shares $225,000.

From 1923 to 1925 a dividend rate was maintained sufficient to pay on the original common stock $600,000 per annum.

From 1926 to 1928, inclusive, a dividend rate was maintained at a rate sufficient to pay on the original issue of common stock $750,000 per annum.

The total of the dividends paid during that period was $4,050,000 on the original investment of $500,000.

In 1929 a further issue of 45,000 shares of common stock was offered to shareholders at $75.00 per share, this brought in new capital to the amount of $3,375,000. (Page 5959) These shares were issued in the proportion of one new share for each five shares held by the shareholders of the Company.

For the years 1929, 1930, 1931 and 1932, dividends were paid at a rate sufficient to pay on the original investment of $500,000, $750,000 per annum.

For the year 1933 dividends were paid at a rate sufficient to pay on the original investment of $500,000, $712,500 per annum.

For 1934 dividends were paid sufficient to pay on the original investment of $500,000, $600,000 per annum.

In 1935 and 1936 dividends were paid sufficient to pay on the original investment of $500,000. $750,000 per annum.

The total of the dividends paid on the stock issued on the original investment of $500,000, from 1929 to 1936, amounted to $5,812,500.

The total of the dividends paid on the stock issued on the original investment by members of the syndicate in 1905, betweem the years 1906 and 1936, inclusive, amounted to $14,837,500. or an average annual rate of 98.4% per annum.

It may be noted here that during the depression years 1930 to 1936, on the shares issued for the original investment of $500,000, $4,312,500 was paid in dividends.

It may also be noted that dividends paid from 1923 to 1936 on subsequent issues of stock which netted the Company $5,875,000, amounted to $6,276,456.75.

It has been said on behalf of the Company that when the wages were decreased by 10% during the year ended March 31st the dividend rate on the common stock was decreased by 20%. A decrease of 10% in wages would amount to a saving to the Company in 1934 of about $449,000.00, but in that year, notwithstanding the decrease in the rate of the common stock dividend, $600,000 was paid in dividends on the stock issued for the original investment of $500,000 by members of the syndicate.

The dividend record of this Company does not disclose the whole story of the profits earned on the common issued to the original members of the syndicate.

In addition to the earnings that have been paid out in dividends, the common stock shareholders have a very large equity in the Company in the nature of investment in land, buildings, machinery, current assets consisting of cash, Accounts Receivable, Inventory, and outside investments. This value has been built up out of profits made on the sale

of the Company's products in the Dominion of Canada, together with the cash investment made by shareholders from time to time, as heretofore set out.

The question of determining the actual value of these assets may be approached in two ways:

1. By what is shown in the Company's financial records, after all appropriations have been made for repairs, betterments and depreciation.

2. By a calculation made taking into account the profits as shown in the financial records of the Company and the appraised value of the Company's plant.

Mr. Glassco, the Accountant called on behalf of the Company, does not agree that there has been over-depreciation of the Company's fixed assets, and that the earnings of the Company can be determined by taking the appraised value of the Company's property.

I propose, first, to deal with the common stock equity, arrived at from the financial records of the Compay, and to determine the total earnings, giving the Company the benefit of all allowances that they have taken in their books, and secondly, to deal with the earnings of the Company on the basis of the apparent profits, by means of calculations based on the appraised value of the assets taken in 1936.

1. The Financial Statements of the Company show the common stock equity of the Company to be as follows:

Book value of Common Shares outstanding	$18,375,000.00
Surplus credited to Profit & Loss Account. (Exhibit 938 - Annual Report for 1936)	$ 5,393,422.00
Reserves (Exhibit 933) (Reserve against Raw Cotton only included)	2,179,473.00
Inventory Reserve (Exhibit 947)	1,360,096.00
a total of-	$27,307,991.00

The interest of the holders of the original shares issued for the $500,000.00 investment subscribed by the original members of the syndicate would amount to $15,171,105.00. The net result is that the $500,00.00 invested by the subscribers to the syndicate has appreciated in value by $14,671,105.00 since the inception of the Company, and paid to the holders of the stock $14,837,500.00 in dividends in the meantime.

It is claimed on behalf of the Company that a portion of the increased value of the plant may be due to the increase in the cost of replacement values, but, assuming this to be so, the position the shareholders of the Company are in today is this. While continually complaining over a period of years of insufficient tariff protection, and while making strong representations to the Government in 1930 that tariff protection had been insufficient, and, on the strength of these representations securing fu ther tariff protection, the original investment of $500,000 made in 1905 has yielded a return of $14,837,500 in dividends and today has, according to the Company's records, an additional present value of $14,671,105. This is after charging off to profits $22,943,471 for depreciation, (Exhibit 917, page 7), and $12,492,186.92 to equipment and repairs.

2. The profits of the Company may be more fairly calculated by basing calculations on the appraised value of the Company's plant in 1936.

Where the Company has charged out of profits large sums of money annually to repairs and betterments, and at the same time written off out of profits general sums of money for depreciation, the amount written off to depreciation in excess of the amount required to take care

of reasonable wear and tear (not provided for out of earnings) and obsolescence, amounts to a secret reserve of profits. In order to determine what this reserve (if any) of profit is, it is necessary; firstly, to find the present value of the plant; secondly, whether there has been an accretion in value or depreciation of values since the cost of the plant was charged in the Company's records; and, thirdly, how much has been set up for depreciation.

In 1936 the Company had an appraisal made of its plants for insurance purposes. The appraisal is stated to be: $20,100,000 exclusive of land, substructures and excavations. Including land and sub-structures $22,183,633. (p.12657 & 12658)

This appraisal shows that the Company's plant, buildings and machinery, with the exception of lands, sub-structures and excavations, is valued at $20,100,177. The land is shown in an appraisal made for the Company in 1920 at $1,583,456.63. Since the Company has purchased the head office building in Montreal, a very valuable site on Victoria Square. Mr. Howson estimated additional land and sub-structures at $500,000. No exception has been taken to this amount. These records, taken together, show the present day value of the Company's properties to be $22,183,633. (Exhibit 917, page 8).

The Company's records show the assets of the Company charged into the books over the period of years at $41,679,277.06. (Exhibit 917, page 8).

In arriving at this figure of $41,679,277.06 the Company has taken the plant and machinery into its books at the figure at which they stood on the books for the predecessor Company, regardless of the price which the Company had paid for them. The excess of the book value

over the purchase price received by the predecessor Company is $2,191,261.37. (Exhibit 917, page 8).

In addition to this, the Company transferred from Goodwill Account to Fixed Assets Account $3,563,109.91.

Thirdly, the Company wrote up its assets in 1923 by $7,500,000 on the basis of an appraisal that had been made in 1920, evidently with a view to the redistribution of stock which took place in 1923.

The total of the inflation that thus took place in the book values amounted to $13,254,371.28, leaving the actual cost, that is, the actual amount which had been paid by the Company for these assets, $28,424,855.78.

Exhibit 917, page 8, shows that the amount written off during the years 1915-1936 total $19,865,990.66, which, taken together with other amounts written off from profits for obsolescence, etc., amounts to $23,506,950.95. This leaves the unabsorbed portion of the fixed assets as of March 31,1936, on a cost basis, at $4,917,904.83, but taking the insurance appraisal of 1936 as a basis, the value of the plant today is $22,183,633. In the absence of increased values between the time of the capital outlays for plant and machinery and taking of the appraisal values of 1936, there appears to be a secret reserve of profit amounting to $17,265,728.17. If this is the case, then the amount charged for depreciation, repairs and betterments, has been excessive to this extent.

It is contended by Mr. Glassco, on behalf of the Company, that there had been an appreciation in value between the time of the capital outlay and the appraisal, and, in order to demonstrate this, Mr. Glassco proceeded to justify the inflation in book value of $7,500,000, which took place in 1923 following an appraisal, made in 1920 by

showing that the cost of erecting plant and machinery had increased by approximately 100% between 1910 and 1920 and Mr. Glassco offered the opinion that there had been no over-depreciation up until 1920.

The Company, however, in its own statement put out to the shareholders on the 31st. March, 1935, (Exhibit 329, page 15), stated:

> "Over a period of 15 years, the physical assets acquired in 1905, and worth approximately $11,000,000 at that time, had been doubled in value through a steady programme of yearly replacements and betterments, combined with the natural appreciation in values of all kinds between 1905 and 1920.
>
> The Effective Depreciation written off over the period to 1924 amounted to $9,400,156.43, which was more than sufficient to take care of actual wear and tear and to cover, as well, capital losses, amounting to $540,895.85, incurred in disposing of certain unprofitable units of the old Dominion Cotton Mills Co. Limited, where manufacturing operations were discontinued. Over the same period, the Company had followed a policy of keeping its physical properties in the best possible state of repair, and had spent $6,926,746.40 on repairs to buildings and machinery."

Mr. Glassco offers the opinion that there was no excessive depreciation up until 1920, but he declines to offer any opinion as to whether there was excessive depreciation after 1920, and although he had access to all the Company's records and was apparently making a special study of this matter, he did not secure from Dominion Textile Company Limited any statement as to the replacement costs of capital expenditures, having in mind the replacements that the Company has made from time to time over the period of years.

The situation may be examined by comparing the value of the plant, buildings and machinery as of 1920 on the basis of the appraisal made at that time together with the capital expenditures since 1920 less the depreciation

charged to operations and other capital adjustments from 1920 to 1936 with the appraisal of the Company's physical assets made in 1936.

In order to do this, however, it will be necessary to reduce the above figures to the values prevailing when the 1936 appraisal was made.

In the preparation of the statement appearing on page 8, (Exhibit 917), the purpose was to show the present book value of the land, buildings and machinery on the basis of cost to the Company after eliminating all write ups, both at the time of purchase of the original company and through revaluation on the basis of the 1920 appraisal. From the figure so obtained amounting to $28,424,855.78, was deducted the depreciation and all amounts written off and credited to capital accounts, these during the period from 1905 to 1936, amounted to $23,506,950.95, leaving a book value of $4,917,904.00.

Early in 1936, the Company's physical assets exclusive of the head office building were appraised by the Appraisal Department of the Manufacturers' Mutual Fire Insurance Company at $21,128,836.00. This appraisal covered the machinery, equipment and buildings, with the exception of the uninsurable portions, and does not include land values. Comparing the present book value, as arrived at above, of $4,917,904 with this figure would leave a surplus of $16,210,932. to which would have to be added the value of the land and the sub-structures to arrive at the actual surplus of present value over book value.

The Company objects to this basis of calculation and through Mr. Glassco who appeared on its behalf, makes the claim that the valuations, as placed upon the books at the time of the original purchase, were justified because

they were the same values that appeared on the books of the original companies and were paid for in stock by Dominion Textile Company Limited on this basis. It is further claimed that the subsequent write up which was made in 1922 onnthe basis of the 1920 appraisal was justified because of an actual increase in the value of physical assets which had occured between 1913 and 1920 of approximately 100%. He produced tables to support this claim.

Accepting Mr. Glassco's argument as being the basis for the write up, there can be no objection to using the same method in dealing with book values that are on the Company's books at March 31st, 1936. In other words, the appraisal taken in 1936 is on the values of plant and machinery prevailing at that date. Upon investigation, it is found that there has been an average drop in values as between 1920 and 1936 of 40% of the 1920 figures. This is borne out by a statement included in a letter received from the "Textile World" of New York City, dated December 2nd, 1936, which is not in evidence but is quoted as coming from a reliable source as follows:

"Mr. A. S. Whiteley,
Royal Commission of the Textile Industry
National Research Building
Ottawa, Ont.
Canada

Dear Sir:

Answering your inquiry of November 30, we offer from our information files a few figures on the subject of cotton mill erecting which may be useful to you. This information comes from statements made by manufacturers of machinery men in their reported addresses before conventions or interviews.

In 1917, it was stated that to construct and equip a cotton mill would cost $15 to $20 or more, per spindle.

In 1921, at the height of the post-war boom, it was said to cost $80 per spindle to erect and equip a new cotton mill.

In 1934, it was said to cost from $45 to $50 per spindle to erect and equip a cotton mill, of which sum approximately $25 was for machinery.

We hope that this information is of some use to you and thank you for the opportunity of serving you.

Very truly yours,

(sgd) WILLIAM B. DALL

Managing Editor
TEXTILE WORLD."

The conclusions of this letter are also borne out by the price indeces prepared by the Dominion Bureau of Statistics in respect to 'Building and Contruction' costs and the cost of "Iron and it products." The first item, appearing on Page 808 of the "Bureau's Year Book, 1926", shows that in 1920 the index cost of building and construction was 144.0 as against, in 1935, 81.2 and in respect to"Iron and its products", appearing on page 807 of the same volume, in 1920 the index figure was 168.4 and, in 1935, 87.2. These figures clearly indicate the substantial reduction in the cost and value of equipment of this kind occurring between 1920 and 1936.

In his evidence, Mr. Glassco mentions a figure of $73.05 per spindle as the 1930 basis of cost. Similar tables to those used by Mr. Glassco are not available for 1936, but there is every reason to believe that such tables would show the same relative drop in values as shown by the tables available.

In view of the above facts, the only fair comparison with the 1936 appraisal would be to reduce the values set up on the books on the basis of the 1920 appraisal, with all additions since, to the values prevailing in 1936.

In 1920 the appraised value of the land and buildings, plant and machinery amounted to $22,918,033.32. After eliminating the value of the real estate included therein of $1,583,456.00 the value of the

Buildings and Machinery amounted to	$21,334,577.	
On the basis of 40% reduction, the present value of this item is		$12,800,746.
The plant of the Dominion Cotton Mills Company Limited was purchased in 1921 at a cost of	2,157,160.	
The present value would be		1,294,296.
The buildings and machinery taken over from the Sherbrooke Cotton Company in 1928 cost	1,936,677.	
The present value would be		1,699,152.
There were additions to building, plant and machinery between 1920 - 1936 amounting to	10,113,238.	
Reducing these to present value on the basis of the index cost prevailing on the date of purchase, gives present value of		8,799,926.
Summarized, it shows a total book value of	$35,541,652.	
With a present value of		$24,594,120.
From this latter figure should be deducted:		
Depreciation charged, amounting to		$17,875,243.
Miscellaneous sales and disposals amounting to		769,339.
Totalling		$18,644,582.
Leaving a net present value amounting to		$ 5,949,598.
Comparing this with the 1936 appraisal figures amounting to		21,128,836.
Leaves an amount of		$15,179,238.

which would fairly appear to be undisclosed profits during the period from 1920 to 1936, created by overdepreciation and betterment and repairs charged to profits which, during that period, were as follows:

Depreciation	$17,875,243.	
Repairs and Betterments	10,116,419.	)plus what)cannot
Equipment charges from 1927 only to 1936	2,067,600	)be traced)

In respect to the period prior to 1920, in spite of Mr. Glassco's claim that the increase in values justified the write up and that there is no evidence of overdepreciation and charges to betterment creating undisclosed profits, the facts are as follows:

That during that period the total amount of additions capitalized, excluding the purchase of the Mount Royal Mill, which was not taken over until the year 1920, were less than $2,000,000, and that, during the period, there was written off plant and machinery:

To Profit and Loss Account directly	$3,067,065.33
To Depreciation Account	2,059,237.60
To Reserves taken over from old Company	563,479.86
For Repairs and Betterments	4,290,250.13
making a total of	$9,980,032.92

charged to operations during that period in respect to plant and machinery which cost the Company, even on its own figures, $12,624,302.52.

From these figures it would appear to be obvious that the Company's own statement, in its booklet filed as Exhibit 329, can be accepted as accurate, that is that the write up in 1920 included amounts charged depreciation that were not required and amounts applied to betterments and repairs and charged to profits creating an asset which was given effect to when this revaluation was placed on the books.

The total assets created by charges to profits for overdepreciation, betterments and repairs appears to have been $15,179,238. This calculation, of course is predicated on the accuracy of the appraisal of 1936. Neither Mr. Gordon nor Mr. Glassco would state that this appraisal did not

indicate a fair value of the Company's assets. Mr. Glassco stated (Page 13793):

> "It should be reasonably close, but it is an insurance appraisal."

When asked to state whether he would contend, if engaged on an arbitration on behalf of the Company, that it understated the value of the Company's assets, he declimed to say that he would. Mr. Glassco stated as follows: (Page 13797).

> "BY MR. McRUER: Q. Coming back to the depreciated value of the property, Mr. Howson arrives at the figure of $4,917,904?
>
> A. Yes.
>
> Q. If the value today is $22,000,000, then the difference is absorbed either by increment values or by writing --.
>
> A. By overdepreciation.
>
> Q. By overdepreciation, or by charging betterments and repairs.
>
> A. Equivalent to overdepreciation.
>
> Q. But if replacement costs have dropped since 1920, and if this increment has, as you apparently put it, occurred since 1920, then there has been a large overdepreciation.
>
> A. There has been overdepreciation based on the extent to which replacement costs have dropped and depending upon at what stage of the price cycle the company made their additions of $16,000,000 between 1920 and 1936."

It is difficult without carefully kept records on behalf of the Company, to determine to what extent the depreciation written off has been more than adequate. The Company itself has stated that it is.

In addition to this, the Company has charged out of profits, the betterments and repairs as already mentioned. To what extent these have really been capital expenditures it is impossible to determine, because of the way in which the records of the Company have been kept. (Exhibit 945).

It is, however, clear that, in addition to the profits shown on the books of the Company, there is a large sum, which may be called a secret reserve of profit, represented in plant and machinery. The extent of this sum, under the present accounting methods of the Company can, at least be approximately determined as indicated herein.

Exhibit 1233, a statement filed by Mr. Glassco on behalf of Dominion Textile Comapny Limited, is conclusive proof of the advantage that this Company has had during the past thirty years. Accepting every allowance that is asked for on behalf of the Company, the average annual earnings of the invested capital, however produced, has amounted to 9.12%. (Glassco Exhibit 1232, Page 3). However, a large part of the invested capital is not capital invested by investors but capital that has been invested by consumers. Of the $17,983,218.22 shown on Page 3 of Exhibit 1232, $1,940,600.00 was invested by the preferred stockholders, $500,000.00 by the original subscribers to the the syndicate, $5,875,000.00 by subsequent subscribers for common stock and $9,667,618.22 is profits earned from what has been referred to as a private power of taxation vested in the Company. In addition to this, Mr. Glassco, in his statement, has claimed a loss for 1933 of $614,683.36 when, in fact, that was incurred by a transfer from surplus of $1,000,000.00 to investment account to cover losses that had been made on investments by the Company. It can hardly be contended that this is a loss attributable to the cotton business in Canada. Further, Mr. Glassco has made no allowance for the secret inventory reserves or for the other secret reserves arising by reason of charging to operations amounts in excess of proper depreciation and amounts for betterments and repairs which should have

been capitalized.

The evidence shows that had this Company not paid out such large sums in dividends on the common stock, the Company would have had abundant funds to finance all the operations of the Company and put the Company in a position today of having been so thoroughly well established by profits contributed by consumers of Canada that it would have been able to compete with very little or no protection.

It cannot be contended that if an investment bears interest at an average rate of 20% per annum continuously for thirty years that such a return is inadequte to one who invests in an industry receiving special privileges from the Government of Canada.

The following table shows the position that Dominion Textile Company Limited would have been in had the Company paid all the bond interest according to its obligation, the preferred stock dividends as required and a common stock dividend over a period of 30 years on the amount originally invested in the common stock at the rate of 20% per annum :

Net Current Assets, as per books after deducting trade & operating liabilities	$6,173,786.46	
Inventory not shown (secret reserve)	1,360,096.00	$7,533,882.46
Investments and Subsidiaries		7,681,263.84
Funds which would be available had dividends been paid on the common stock on the basis of 20% on original investment		21,516,654.75
The depreciated value of Buildings, Plant and Machinery as shown by the 1936 appraisal, including estimate for Head Office building, land and substructures		22,183,633.00
		$58,915,434.05
Less Cash received by Company on account of subscriptions for additional common stock issued in 1922 and 1929		5,875,000.00
		$53,040,434.05

Capital Liabilities -	
Bonds outstanding	$ 4,457,000.00
Preferred Stock outstanding..........	1,940,600.00
Common Stock outstanding (on the basis of the original cash investment)	500,000.00
	$ 6,897,600.00

Reserves and Undivided Profit, that would have been available on the basis of this calculation			
Free Reserves as per books of the Company		$2,179,473.67	
Undistributed Profits, as per books of the Company...$5,393,422.74 Less Bond Disct. as per books of the Company	318,170.00	5,075,252.74	
Inventory reserve (not disclosed on the books of the Company).....		1,360,096.00	
Overdepreciation & Betterment, charged to profits (not disclosed on the books of the Company)...		16,011.356.89	
Additional Surplus that would have been available had dividends been paid on the common stock on basis of 20% per annum on the original investment, with accumulated interest on the additional surplus at 3% per annum simple interest		21,516,654.75	46,142,834.05
			53,040,434.05

The result has been that on the above basis the consumers of Canada have paid in profits sufficient to pay back to all investors - i.e. bondholders, preferred and common stock holders the whole of their investment - pay all the interest on the bonds, the dividends on the preferred stock and dividends on the common stock at the rate of 20% per annum on the money actually invested, to pay for the entire buildings, plant and machinery, and to give the company a fund available for outside investment amounting to $24,000,000., all in a period of thirty years.

CANADIAN COTTONS, LIMITED:

Canadian Cottons Limited, was preceded by a company known as Canadian Coloured Cotton Mills, Limited, a company incorporated in 1892. The Company was a merger of seven companies known as the Stormont Cotton Company Limited, St. Croix Cotton Manufacturing Company Limited, Canadan Cotton Manufacturing Company Limited, Ontario Cotton Mills Company Limited, American Cotton Mills Limited, Lybster Cotton Manufacturing Company Limited, and Dundas Cotton Company Limited. The assets of these companies were acquired by the issue of bonds amounting to \$2,000,000.00 and common stock amounting to \$2,600,000.00. The Bonds of the Canada Cotton Manufacturing Company Limited, amounting to \$300,000.00 were assumed. A complete history of the development of the above companies is not available, nor are details of the arrangements made for the acquisition of the companies by Canadian Coloured Cotton Mills, Limited. It appears (Ev. p.6064a) that the common stock, amounting to \$2,600.00 was issued to A.F.Gault and David Morrice in part payment of the properties mentioned and the \$2,000,000.00 of bonds were also issued to the same gentlemen. In addition to this, a group of five men subscribed \$20,000,00 each, making a total of \$100,000.00, for common stock. It was provided that where the current assets of the merging companies did not reach the value that had been put on them in the agreements, the promoters were to return to Canadian Coloured Cotton Mills Limited, the difference in bonds. \$240,000.00 worth of bonds were returned to the Company pursuant to this agreement. We are unable from the records to ascertain how much of the common stock that was issued really went to the promoters

and how much, if any, was required to take up the shares of the merging companies. Mr. Dawson stated in evidence (p 6064) that he had no knowledge in regard to whom the Canadian Coloured Cottons dealt with at the time of the merger.

Mr. Howson, from a study of the Minute Book of the Canada Cotton Manufacturing Company Limited, has given evidence that there appears to have been bonus stock issued in respect to the acquisition of this company of $250,000.00. If bonus stock was issued in respect to this Company, it is not improbable that bonus stock was issued in the acquisition of the other companies. In considering the dividend record of the Canadian Coloured Cotton Mills Limited, it is extremely important to know for what the common stock was issued, but whether or not anyone in the employ of the present company has this knowledge we have not been able to obtain it for the benefit of the Commission.

The dividends paid on the common stock were:

1892	4½%	$121,050.00
1893	3%	81,000.00
1898	2%	54,000.00
1899	4%	108,000.00
1900	4%	108,000.00
1901	4%	108,000.00
1902	4 %	108,000.00
1903	4%	108,000.00
1905	2%	54,000.00

1906	3%	$ 81,000.00
1907	4%	108,000.00
1908	4%	108,000.00
1909	4%	108,000.00
1910	1%	27,000.00

The surplus, by 1910, amounted to $1,673,387.63.

Canadian Cottons Limited, was incorporated in 1910 with a capitalization of $8,000,000.00 consisting of 6% non-cumulative preferred stock, $4,500,000.00 common stock $3,500,000.00. Preferred stock issued amounted to $3,575,000.00 and common stock to $2,715,500,00. At this time the Company acquired the Gibson Cotton Mill Company Limited, and the Mount Royal Spinning Company Limited, which was subsequently leased to Dominion Textile Company Limited, and sold to it in 1920. The merger of these companies was put through by the issue to the shareholders of Canadian Coloured Cotton Mills Limited, of $2,025,000.00 of preferred stock in return for the common stock held by them of Canadian Coloured Cotton Mills, Limited, amounting to $2,700,000.00; $1,000,000.00 of preferred stock was underwritten by a syndicate for $1,000,000.00 and $2,000,000.00 of common stock was issued as a bonus for the sale of the preferred stock; for the acquisition of the Mount Royal Spinning Company Limited, there was issued $1,100,000.00 in bonds, $550,000.00 preferred stock and $715,500.00 common stock; and for the acquisition of the Gibson mill, $700,000.00 in bonds was issued, making a total capitalization, when the merger was complete, of $3,650,000.00 in bonds, $3,575,000.00 preferred stock and $2,715,500.00 common stock. $1,850,000.00 of the bonds outstanding were bonds that had been assumed and which had been outstanding against the assets of the Canadian Coloured Cotton Mills, Limited.

Through the exchange of common stock held by the shareholders of Canadian Coloured Cotton Mills, limited, for preferred stock in the new company, a capital surplus of $675,000.00 was created. This, together with a charge of $1,325,000.00 to the surplus of the old company offset the par value of the common stock and carried into the new company an undivided surplus of $348,387.63. The net effect of this was to capitalize the surplus that had accrued in the Canadian Coloured Cotton Mills, Limited, to the extent of $1,325,000.00 and was, in reality, the same effect as if a stock bonus had been issued to that amount.

The situation when Canadian Cottons, Limited, started business in 1910 was that all the common stock except $715,500.00 was obviously bonus stock and the preferred stock that had been exchanged for common stock would be bonus stock to the extent that the common stock for which it had been exchanged was originally bonus stock. Clear information on this is not available.

In 1913 the Company purchased a controlling in the Cornwall and York Cotton Mills, Limited, of 2,709 shares by issuing $107,300.00 in bonds and $86,500.00 in preferred stock.

Exhibit 917, p.5, shows that from 1892 to 1936 the total net revenue available for shareholders earned by the company, according to the Company's records, amounted to $15,360,630.61 of which there was paid out in dividends, $9,778,737,57, while the Company provided, in the mean time for:-

Depreciation charged to operations,	$12,625,938.98
Repairs and improvements charged to operations,	$ 9,401,626,01

Mr. Howson has prepared a statement which is a summary of the earnings of the Company calculated on the basis of an insurance appraisal submitted by the Company as indicating the present value of the Company's assets. (see Ex. 917 p.3) This shows that the Company has earned for the shareholders since 1892 a total of $24,560,804.50. Although the original investment cannot be determined with accuracy, Mr. Howson has shown it to have been not more than $3,930,130.00.

The evidence at pages 6078, 6080, 6081, 6084, 6088, 6091, 6111, 6116, 6121, 6126 and 6129 shows the Canadian Coloured Cotton Mills, Limited, made annual complaints of insufficient tariff protection. The annual reports, filed as a part of Exhibit 340, of Canadian Cottons Limited, show that these complaints were renewed in the year 1923 and continued in the years, 1924, 1925, 1926, 1927, 1928, 1929, 1930, 1932, 1934, 1935 and 1936. It is submitted the record of earnings do not justify the complaints nor the increase tariff protection given to the industry since 1930.

MONTREAL COTTONS, LIMITED:

The business of this company was commenced in January, 1874, when a company known as The Montreal Cottons Limited, was incorporated with a capitalisation of $500,000.00, divided into 5,000 shares of $100.00 each. The issued capital appears to have been $385,000.00. There is no record of the consideration for which these shares were issued. The first record of the Company is contained in a Minute Book which was produced. (Ev. p. 5206) In the year 1881, a stock bonus of $110,000.00 was issued to shareholders as of May 18th, 1881. (Ev. p. 5212) Dividends were paid at the rate of 11% per annum in 1880 and 20% per annum in 1881. In May, 1882, the authorized capital was

increased to $1,000,000.00. In May, 1882, $100,000.00 of stock was sold to shareholders at par. In November, 1882, a further issue of $100,000.00 of stock was sold. By February, 1886, the issued capital amounted to $794,200.00. In 1886, 58 shares were sold at a premium of $22.00, bringing the outstanding capital up to $800,000.00. In 1893, $200,000.00 of stock was sold, bringing the outstanding capital up to $1,000,000.00. In this year the authorized capital was increased by $1,000,000.00 (Ev. p. 5247). In 1893, the Company sold for cash $400,000.00 worth of stock in 1898, $100,000.00, in 1899 $150,000,00 and in 1900, $330,000.00. The capital outstanding at that date was $2,000,000.00. In 1901 (Ev. p. 5274), the authorized capital was increased to $4,000,000.00: $1,000,000.00 was sold at par, bringing the outstanding capital up to $3,000,000.00. There were no further changes in the capital structure of the Company until 1911, when a new company, called The Montreal Cottons, Limited, was incorporated.

The following is the dividend record of the Company from 1880 to 1911:

1880	11%	1881	20%	1882	14%	1883	9%
1884	-	1885	-	1886	-	1887	8%
1888	6%	1889	6%	1890	6%	1891	6%
1892	6½%	1893	8%	1894	8%	1895	9%
1896	8%	1897	9%	1898	8%	1899	8%
1900	8%	1901	8%	1902	9%	1903	9%
1904	9%	1905	7%	1906	7%	1907	7%
1908	8%	1909	8%	1910	8%	1911	7¾%

Some indication of the prosperity of the Company is reflected in a statement made to a special meeting of the shareholders called to meet on the 5th of June 1905, to consider an offer that had been made to the shareholders on behalf of a syndicate organized for the purpose of

acquiring their stock. On this occasion, the President, S.H. Ewing, submitted to the shareholders a long and comprehensive statement of the affairs of the Company. (Ev. p.5288). The previous five years operations are dealt with. (Ev. p.5290) The total earnings for the five years amounted to #2,522,427.22, distributed to shareholders, $1,128,750.00, carried into reserve fund or profit and loss, $812,331.75. In addition, during the period, $375,000.00 was written off for depreciation and $471,859.72 for repairs and improvements. The combined reserve at this time appeared to be $2,101,548.00, or 70% of the total capital. The President's words are as follows:

> "In other words, you have had paid to you a satisfactory dividend, your plant has been maintained in an exceptionally high state of efficiency and you have accumulated a reserve in excess of 70% of your capital. Now, I think you must all agree that this is a highly creditable showing and one of which, as shareholders, we should be proud. I am proud of it and every shareholder should take equal pride in it." (Ev. p. 5292)

It appears from Ex. 337 that the Chairman of the syndicate that was proposing to purchase The Montreal Cotton Company Limited, was David Yuile and associated with him was D. Williamson. The names of the other members of the syndicate are not disclosed. David Yuile was Chairman of the syndicate formed to incorporate Dominion Textile Company Limited and D. Williamson was associated with him.

At the end of the year 1910 the company had a profit and loss surplus of $2,002,610.14. (Ex. 952). The business done for the year was over $3,000,000.00.

In 1911 a new Company was incorporated with a capitalization of $6,000,000.00. Two shares in the new company were issued to every shareholder in the old company, one share of common and one share of preferred. (Ev. p.5322).

The dividend record of the Company is as follows:

Dividends on the preferred stock were paid each year at the rate of 7% per annum:

In 1911 a dividend of ¾% was paid on the common stock:

In 1912, 1% on the common stock:

From 1913 to 1918, inclusive, 4% on the common stock:

In 1919, 4½% on the common stock:

From 1920 to 1932, inclusive, 6% on the common stock:

Since 1932, no dividend has been paid on the common stock.

Up to and including 1928, the dividends were paid out of profits earned from manufacturing. For the three years, 1930, 1931, and 1932, the Company had operating losses and reserves were drawn on for dividends. Small profits were made in 1933 and 1934 and reserves were further encroached upon to pay the dividend. In 1935, the Company more than earned its preferred dividend.

In 1929, the Company entered into a contract with the Beauharnois Power Corporation, Limited for leasing its water rights for 70 years in consideration of: $1,975,000.00, cash, 5,435 shares of the common stock of Beauharnois Power Corporation, Limited, and 8,000 horse power, delivered on the Company's bus bars free of charge, with a further option of 4,000 horse power at $15,00 per horse power. (Ev. p. 5425). The $1,975,000.00 cash paid was set up in a special reserve account and it was on this reserve account that the Company drew to pay its dividends from 1930 to 1934.

In the annual statement for the year 1922,

published on February 5th, 1923, Sir Charles Gordon appears to sign as President of the Company. It appears that Sir Charles Gordon was a director prior to this time. It is not clear from the evidence at what date the Dominion Textile Company secured control of The Montreal Cottons Limited. On the balance sheet, as of December 31st, 1935, Sir Charles Gordon andSir Herbert Hold jointly sign as directors of the Company. It does appear that Dominion Textile Company Limited now owns 54.8% of the common stock of the Company. (Ev. p. 4854)

It appears that for some time the Company had been selling a large part of its produce to Dominion Textile Company Limited, and that the price to Dominion Textile Company Limited was fixed by the General Manager, who was appointed by substantially the same Board of Directors as the Board that directed the affairs of Dominion Textile Company Limited (Ev. p.4856, 4859) In 1934, Dominion Textile Company Limited was appointed sales agent for the Montreal Cottons Limited, so that from that time the sales of the Company that had once been a very large competitor of Dominion Textile Company Limited were all directed by the selling officers of the latter company (Ev. p. 5439)

In the year 1903, this company employed 2,722 hands and had in operation 4,551 looms. The total sales for the year amounted to $2,384,416.27. (Ev. p. 5279) At the present time the Company has 3,524 looms. (Ev. p. 4852) In 1935, the Company had in its employ 2,476 employees and had sales of $5,189,271.57. It will be noted that 246 less employees produced almost twice the value of goods sold. The records show that the price of raw cotton in the two years was practically the same.

Like other companies, complaint was made from year to year in reference to insufficient tariff protection. In the Directors' Report, dated February, 10th, 1903, it was stated (Ev. p. 5277):

> "The Preferential Tariff, your Directors think, has been a great mistake and it is hoped that the Government will realize this and will abandon it altogether and will bring back the duties to what they were before it was introduced."

Between 1903 and 1910, when the new company was organized, the dividends were paid as stated heretofore, including the dividends on the bonus stock, and the reserves of the Company were increased by $536,006.00.

Exhibit 917, page 18, shows that there is an apparent surplus over the book value of the assets of the Company amounting to $2,000,000.00 and page 19 shows that, in the years 1931 to 1935, inclusive, very heavy charges were made to operations for mill supplies and equipment. It will be noted that these are years, according to the Company's balance sheet, that showed insufficient profits to pay the dividends. The mill supplies and equipment charges jumped between 1931 and 1935 from $60,391.33 to $246,644.32. They reached a high point in 1934 of $341,895.05. It is rather difficult to conceive how, in the normal operations of a mill, there should be such a variation in charges for mill supplies and equipment over various periods of years.

At the time these heavy charges were being made to operations, the mill was undergoing what was called a "re-vamping process". (Ev. pp.5429,5431). In addition to the charges shown in Exhibit 917, page 19, to operations for repairs and mill supplies, there were very heavy charges for wages, which were charged to wages account.

These amounted to as much as $217,000.00 in the year 1933. (Ev. p. 13700). During that year, out of $250,000.00 spent in mechanics ' wages for repairs, etc., only $33,000.00 was charged to capital account. It is plain from this that the records of the Company in regard to its profits for these years do not accurately show the earnings of the Company, but they do show that very large capital expenditures have been made out of profits.

It must also be borne in mind that the profits, as stated in the annual statements, are further effected by the fact that Mr. Gordon has admitted that there was an inventory reserve in Montreal Cottons Limited (Ev. p.13702) particulars of which are not yet available.

WABASSO COTTON COMPANY, LIMITED:

Wabasso Cotton Company, Limited, was incorporated in 1907 by Mr. C.R. Whitehead and some associates. The authorized capital of the Company was 7,500 common shares of the par value of $100.00 each. Of these, 5,000 shares were issued pursuant to an agreement between C.R. Whitehead and the Company, (Ev. p. 1169) under which C.R. Whitehead agreed to assign to the Company a tract of land situated in the City of Three Rivers and an agreement with the Shawinigan Water Power Company and an agreement with the City of Three Rivers whereby the City agreed to pay the Company a bonus of $75,000.00 and agreed to a commutation of taxes for a period of years. Under the contract, Mr. Whitehead was to receive $25,000.00 in cash and $487,000.00 was paid in non-assessable common stock.

As soon as the Company was organized $1,000,000.00 of bonds were issued. With these bonds, a bonus of 20% in stock was given out of the common stock that went to Mr. Whitehead. Under the agreement, the regular bonus was 20%.

There were certain people, however, who underwrote blocks of bonds and they were given more stock as a commission for handling these bonds. (Ev. p. 1183) Bonds were forty year gold bonds. The Company has, throughout its history, paid the interest on these bonds, which were recently redeemed when a refunding programme was carried out.

In May, 1912, the St. Maurice Valley Cotton Mills, Limited, was organized. This company was really organized for the purpose of erecting another mill on the same property as the Wabasso Cotton Company's mill. The reason for the organization of the Company was that a bond issue could be floated which would be a first mortgage on the Company's property. If the development was carried on by the Wabasso Cotton Company, it would be necessary to have a second mortgage bond issue, which was not practical.

The authorized capital of the St. Maurice Company was $1,250,000.00. At the same time, the Wabasso Cotton Company increased its capitalization from 7,500 shares to 17,500 shares of $100.00 each. (Ev. p. 1188) This left 12,500 shares in the treasury which were available to be issued. 12,500 shares of the St. Maurice Company were issued to the Quebec Savings and Trust Company and an agreement was entered into between the Quebec Savings and Trust Company and the Wabasso Cotton Company to exchange these shares, share for share, for Wabasso common stock. A Cond issue on the St. Maurice plant was authorized for $2,500,000.00 (Ev. p. 1192) of which $1,500,000.00 was issued. With these bonds, a 50% bonus of stock in the Wabasso Cotton Company, Limited, was issued from the stock that was transferred to the Quebec Savings and Trust Company, Ltd, (Ev. p. 1193). The evidence shows that, as nearly as can be determined, the final disposition of the shares of the Wabasso Cotton Company Limited was:

2,000 shares	Bonus for the sale of Wabasso bonds:
2,700 "	To Greenshields, Whitehead and Craig in regard to the organization of the Wabasso Company:
300 "	To various persons:

In connection with the sale of St. Maurice bonds and the organization of the St. Maurice Company:

7,500 shares	Bonus on the sale of St. Maurice bonds;
1,550 "	C.R. Whitehead and Pringle;
1,549 "	Greenshields;
650 "	W.T. Whitehead;
1,250 "	Various underwriters, etc.

(Ev. pp. 1198-1202)

In 1920, the Wabasso Cotton Company applied for Supplementary Letters Patent, increasing the capitalization from 17,500 shares to 35,000 shares of no par value. These were issued to shareholders of record, two shares of no par value for one share of $100.00 par value. (Ev. pp.1211-1213)

In 1927, the Wabasso Cotton Company applied for Supplementary Letters Patent increasing the capital from 35,000 shares to 105,000 shares of no par value. A new issue of 17,500 shares was distributed to the shareholders of record, in the proportion of one for two, at $60.00 per share. The stock was all taken up and the Company received $1,050,000.00 (Ev. p. 1216).

In 1928, a further 17,500 shares were issued to the shareholders in the proportion of 1 for 3 held at $80.00 per share. 17.404 shares were taken up, returning to the Company $1,392,240,00.

In 1909, The Shawinigan Cotton Company Limited was organized by the same group of men as those that promoted the Wabasso Cotton Company Limited. The Company had 1,000 shares of a par value of $100.00 each. The same

procedure was gone through as had been followed in the organization of the Wabasso Cotton Company Limited. C.R. Whitehead had previously obtained a contract with the Shawinigan Water and Power Company for the supply of electric power and agreed to transfer the contract to the Shawinigan Cotton Company Limited for $753,000.00. $750,000.00 in common stock and $3,000.00 in cash. In addition to the assignment of the contract, a tract of land, which had cost $3,000.00, was assigned to the Company. A bond issue of $2,500,000.00 was authorized and there were issued $1,666,000.00 of bonds. These bonds bore interest at 6%. 25% of the $750,000.00 in stock was given away to bonus the sale of the bonds. (Ev. p. 1227)

In 1910, C.R. Whitehead, having control of the Oxford Knitting Company, Limited, entered into an agreement to sell it to the Shawinigan Cotton Company Limited for $116,000.00 in bonds and $249,000.00 fully paid up, non-assessable stock. (Ev. p. 1229. The operation of the Oxford Knitting Company Limited, proved unprofitable with the result that the Shawinigan Company Limited lost approximately $380,000.00 on the investment. (Ev. p.1238)

The Shawinigan Cotton Company Limited was also interested in the Shawinigan Knitting Company Limited, a company organized for the purpose of carrying on a knitting business under the same roof as the Shawinigan Cotton Company Limited. The evidence shows that a large loss was incurred in the operation of this Company and that the plant was finally disposed of to the J.R. Moodie Company Limited of Hamilton..

In 1916, C.R. Whitehead and J.N. Greenshields entered into an agreement with the Wabasso Cotton Company Limited to sell 7,500 shares of Shawinigan Cotton Company Limited stock at $10.00 a share to the Wabasso Cotton Company

Limited, and further, that the Wabasso Cotton Company Limited would repay to them $114,600.00 which had been advanced to the Shawinigan Cotton Company Limited and on account of which indebtedness $200,000.00 in bonds of the Shawinigan Cotton Company Limited were held as collateral security. These bonds were to be released on payment of the indebtedness. Although the Shawinigan Cotton Company Limited had been unfortunate in its business, the promoters netted $10.00 per share at the end of seven years on stock that had been issued to them as a bonus and had their loan repaid by the Wabasso Cotton Company Limited.. The Wabasso Cotton Company Limited continued to buy outstanding shares in the Shawinigan Cotton Company Limited at $10.00 a share. In 1930, the capital of the Shawinigan Cotton Company was written down to $10,000.00 and the Wabasso Cotton Company Limited necessarily wrote off from its assets the difference in value between the price it had paid for the stock and 10,000.00.

From the inception of the Wabasso Cotton Company Limited, it has paid the interest on the bonds of Wabasso Cotton Company Limited and St. Maurice Cotton Company Limited as it became due, amounting to $3,259,853.30.(Ex. 917 p.22) Of the total dividends paid amounting to $1,685,656.37, those paid on bonus stock have amounted to $1,302,177.35. The Company has an undistributed surplus of $1,006,564.78 and other unused reserves, for inventories, investments, cash discounts, of $719,339.74, or a total of $1,725,904.52.

It is submitted that the record of these four large cotton companies doing business in Canada is substantial proof of the benefits the cotton manufacturers have derived from the protective tariffs in force during the last sixty years in Canada.

Exhibit 998 shows the record of the cotton companies doing business in Canada during the last ten years. In considering these statements, it must be borne in mind that in the capital employed, in all cases, is included accumulated surplus and does not give effect to undisclosed profits that may have been made but concealed by adjustments of inventory, or over depreciation of assets, or the charging of improvements and betterments to operating account. It will be noted that throughout the whole period, all the companies taken together have made profits, both on the capital employed as represented by the books of the companies and on capital employed after adjustments have been made for inflation of assets by writing up their value in the books of the companies, have been allowed for. These companies all seem to have been carried through the depression period without any substantial impairment of assets and they have all been able to pay substantial dividends on the money invested when bonus stock has been eliminated.

Mr. Howson has prepared a summary from a report to the Federal Trade Commission of the United States of America on the textile industry during the years, 1933,1934, showing the earnings of a group of 296 companies (Ex.1291) and in the year 1935, 302 companies, combining both spinning and weaving of cotton goods in the United States of America. The following table indicates that the Canadian mills have been sustained during the depression by a far greater degree than the American mills:

Return on total investment in operation after eliminating goodwill:

	American companies	Canadian Companies Ex. No.998	Dominion Textile Company. Ex. No.917
1933	6.45%	8.07%	15.60%
1934	1.28	7.91	10.30
1935	1.04 (loss)	7.17	8.07

Return on Capital Stock Equity after eliminating goodwill:

	American Companies	Canadian Companies. Ex. No. 998	Dominion Textile Company Ex. 917
1933	6.70%	10.56%	29.82%
1934	0.30	9.13	13.84
1935	2.30 (loss)	7.78	10.93

4. REAL SILK DIVISION

The broad silk industry in Canada dates from about 1923. There were 16 companies reporting to Mr. Howson which were engaged in the manufacture of silk products of one sort or another. Exhibit 916 shows that in 1926 there were 6 of the reporting companies in bueiness in Canada. In 1930, this had grown to 9 and, by 1934, to 16.

In 1926, 53.7% of the total business of the reporting Companies was done by Belding-Corticelli, Limited, 17.7% by Riverside Silk Mills, Limited, 12.9% by Grout's, Limited, and 10.6% by Bruck Silk Mills, Limited. In 1935, Belding-Corticelli did 21.3%, Riverside Silk Mills, 12.3%, Grout's Limited, 11.6% and Bruck Silk Mills, Limited, 13.6%. In 1929, the Associated Textiles of Canada, Limited, commenced business and now occupies second place in the field, having 21.3% of the business. The affairs of Associated Textiles of Canada, Limited, Belding-Corticelli, Limited, and Grout's Limited, are dealt with in detail.

BELDING-CORTICELLI, LIMITED

The present company was incorporated in 1911 with an authorized capital of 2,500 shares of a par value of $100.00 each. $854,400 in preferred stock and $749,500 in common stock was issued. The present company took over the businesses of :

Belding, Paul and Company, Limited,
Corticelli and Company, Limited,
Cascade Narrow Fabric Company, Limited,
Oriental Silk Company, Limited,

What arrangements were made with the investment companies that put through the merger could not be ascertain-

ed, but the Company set up in its balance sheet $948,323.56 as good will which is no doubt an accurate measure of profit made on the transaction. Debentures were issued to the amount of $750,000.00. The Company realized for these $600,000.00. During the term of the Company's operation, it has written down the good will to $1.00, redeemed all the outstanding bonds and absorbed the discount of $150,000.00, and written its Land, Buildings and Machinery down by $1,273,611.10 or nearly 50%.

The Company has paid dividends continuously on the preferred stock at 7% and, commencing in 1923, the Company has paid the following dividends on the common stock:

1923	2%	1924	4%	1925	5%	1926	6%
1927	6%	1928	7%	1929	7%	1930	7%
1931	7%	1932	7%	1933	4%	1934	4%
1935	4%						

The Company has a surplus to the credit of profit and loss account of $495,193.78 and an inventory reserve of $237,148.43. During the priod from 1911 to 1935, the Company paid out in dividends to preferred stockholders $1,483,840.75 and to common stockholders $524,650.00. For the 10 year period, 1926 to 1935, the Company has earned a net profit of $1,407,863.24, after deducting bond interest, income taxes and all charges for operations, including depreciation and other amounts written off. It will be noted that the net profit on sales was at the low point in 1931 of 3.5% and at the high point in 1929 to 6.5%. The lowest net profit throughout the 10 year period was in 1931, , $96,539.27.

In considering the profits of the Company as shown in its books, regard must be had to the following :

During the ten year period 1926 to 1935 the Company charged to Operations for

Depreciation	$1,214,473.75
Repairs	531,941.81

The average annual charge for these two items from 1926

to 1930 was	$148,888.18
from 1931 to 1935	200,384.92
showing an increased average charge to profits in the five years of the depression period of	$51,496.74

The benefit this Company has received from the consumers of Canada may be summarized as follows:

The Company issued on account of goodwill, as previously mentioned, Capital Stock in amount of $984,323.56. Of this $749,500.00 was issued in Common Stock and the balance of $234,823.56 in Preferred Shares.

On account of the Common Stock so issued, $524,650.00 has been paid in dividends since 1911, and $406,830.00 in dividens on account of the Preferred Stock so issued.

If the Company had applied the profits used to write the Goodwill Account down to $1.00, to further write down its plant, this amount, together with depreciation on plant charged to profits amounting to $1,273,611.10, the undivided surplus of $495,193.78 and the Inventory Reserve of $273,148.43 would have paid for the plant in full and still leave a balance of $291,338.46 in Profit and Loss Account, in addition to $931,480.00 paid out in dividends on the Preferred and Common Stock issued on account of the goodwill.

ASSOCIATED TEXTILES OF CANADA, LIMITED

This Company commenced business in 1929. It was incorporated by Letters Patent issued on the 15th of April, 1929. All the stock of the Company is owned by United Merchants, Inc., and Cohn, Hall and Marx, Inc. The authorized capital is 5,000 shares of common stock, par value $100.00 per share, and 5,000 shares of 7% cumulative preferred stock at $100.00 per share. The United Merchants, Inc., a company owned in the United States of America, own and control a subsidiary company by the name of Cohn, Hall and Marx, Inc. No shares in Associated Textiles of Canada, Limited, have been sold to the public.

$726,000.00 was invested by the parent company in the enterprise in Canada. The factory is located at Louiseville in the Province of Quebec. Before commencing business in Canada, Mr. Fainer, who was interested in the incorporation of the Company, procured certain citizens of the town of Louiseville to enter into a joint and several obligation to pay the Company the sum of $60,000.00, without restriction or reserve, $20,000.00 to be paid when the building was completed and machinery installed and the whole in operation, $20,000.00 one year after the date of the first payment and the balance two years from the date of the first payment, providing the mill was still in operation. (Ev. p. 4196) No stock or interest in the Company was given in consideration of this agreement. The Company commenced production in the month of April, 1930.

Exhibit 907 shows the result of the Company's operations since 1931. The net profit on sales has been as follows:

1931	9.39%	1932	8.9%	1933	10.1%
1934	8.44%	1935	7.69%		

The net profit on capital employed has been as follows:

1931	15.34%	1932	16.52%	1933	17.17%
1934	11.10%	1935	9.32%		

These profits are arrived at after providing for depreciation of $339,322.35 and the payment of a supervising charge to the United Merchants, Inc., of the United States of America, amounting to $110,600.00, and the payment to the President, for salary and commissions, of $124,604.39

BRUCK SILK MILLS, LIMITED, was incorporated in December, 1921.

Exhibit 907 shows that the average earnings on the capital employed in operations during the last 10 years has been at the rate of 12% per annum, and that the common stock equity has increased from $349,942.36 in 1926 to $1,273,384.31 in 1935, $450,000.00 of this increase only being accounted for by new capital introduced into the business in 1933. During the period the Company has earned net profits, after paying bond interest, of $989,367.56 and paid, in dividends, $412,500.00.

In considering the profits of this company, regard must be had for the fact that during the last five years of operations the company has increased the average annual charge to profits for depreciation by $43,762.11 and the average annual charge to profits for repairs by $12,840.29, making a total of $56,602.40 annually.

The following is taken from Exhibit 910:

	Depreciation	Repairs
Average annual charge 1926 - 30	$42,967.42	$10,336.03
1931 - 35	86,729.53	23,396.32
Increase in average annual charge during last five years	$43,762.11	$12,840.29

GROUT'S LIMITED, was incorporated in November, 1923. It is a wholly owned subsidiary of Grout and Company, Limited, of England.

In 1934, the Company caused the Valleyfield Silk Mills, Limited, to be incorporated as a wholly owned subsidiary and did business at Valleyfield and St. Catharines from that date.

Exhibit 907, shows that the average profit derived from earnings on the Company's business from 1926 to 1935 was 11.5 per annum on the capital employed in operations. The total earnings of the Company for the ten year period amounted to $888,684.19

REPRESENTATIVE COMPANIES

Exhibit 916, page 10, shows a summary of the operations of 8 representative silk companies. These companies, over the 10 year period, did not less than 85.6% of the business of the reporting companies in any one year and as high as 94.9% during the period. The ratio of average net profit of all the companies to the average capital employed in operations for the 10 year period was 10.5% per annum. The net profit on sales was 7.4% per annum. The total capital at the beginning of the period, plus the capital introduced during the 10 year period, amounted to $7,608,000.00. Dividends paid and accumulated surplus at the end of the period amounted to $5,017,000.00.

Having regard for the fact that these companies show an average profit of 7.4% on sales and having regard to the very excellent showing of the Belding-Corticelli Company, Limited, which did business on a profit on sales of not less than 3.5% and not more than 6.5% throughout the whole ten year period, it is readily seen that throughout the period, including the depression, the silk mills have done business on an average basis that would be entirely satisfactory in any normal times. Throughout the whole period, the average net profit on operations on capital employed was not less than 5.8% and was as high as 15.1%. During the depression period, between 1931 and 1935, the earning on capital employed was not less than 7.4% and was as high as 11.3%.

5. WOOLLEN DIVISION

There were 32 companies reporting to the Commission that may be classed as manufacturers of woollen textiles. These companies are listed in Exhibit 1017.

Outside of the manufacturers of knit goods , the manufacture of woollen textiles is more generally distributed among a greater number of small mills than any other branch of the textile industry in Canada. The mills are, for the most part, located in smaller communities and, with the exception of one company, Dominion Woollens and Worsteds, Limited, which was a merger of a number of companies and of which more will be said later, it is correct to say there have been no large public flotations of securities of the companies engaged in the manufacture of woollens. As has been the case in some other branches of the industry, the stock of a great many reporting companies is closely held by people who are actively engaged in the business.

The schedules set out in Exhibit 1017 cannot be taken to indicate accurately the number of companies that were in business in 1926 and in 1935, owing to the fact that Mr. Howson only required a five-year statement from the smaller companies.

The records of the companies engaged in the woollen business have been dealt with from 5 different points of view by Mr. Howson in the exhibits prepared by him:

1. In Exhibit 1017, pages 1 to 6, the affairs of all the reporting companies, except Ayers, Limited , and Kenwood Mills, Limited,are summarized and analyzed collectively;

2. In Exhibit 1017, pages 7 and 8, the affairs of all the reporting companies, except Ayers, Limited, and Kenwood Mills, Limited, excluding the Dominion Woollens and Worsteds, Limited, are summarized and analyzed;

3. In Exhibit 1017, pages 9 to 12, the affairs of 13 representative companies taken collectively are summarized and analyzed. The names of these companies are as follows:

Bates and Innes, Limited,
The Brook Woollen Company of Simcoe, Limited,
Barrymore Cloth Company, Limited,
Campbellford Cloth Company, Limited,
Hield Brothers, Limited,
Paris Wincey Mill Company, Limited,
Paton Manufacturing Company, Limited,
Patons and Baldwins, Limited,
Porritts and Spencer, Canada, Limited,
Renfrew Textiles Limited,
Rosamond Woollen Company, Limited,
Geo. Pattinson and Company, Limited,
York Knitting Mills Limited,

For the 10 year period, these companies have done approximately 50% of the total business done by the reporting companies in Canada :

4. In Exhibit 1003, Mr. Howson has summarized and analyzed the business of certain individual companies, namely:

The Brook Woollen Company of Simcoe, Limited,
Dominion Woollens and Worsteds, Limited,
Paris Wincey Mill Company, Limited,
Paton Manufacturing Company, Limited,
Patons and Baldwins, Limited,

5. In exhibit 1064, Mr. Howson has summarized and analyzed the business of Ayers, Limited, and Kenwood Mills, Limited. These companies have not been dealt with collectively with the other woollen companies owing to the fact that, in addition to their ordinary woollen business, they manufacture certain specialties such as paper makers' felts and blankets. It was felt that the business of the industry as a whole could be more accurately reviewed by segregating the review of the affairs of these two companies in the manner in which it has been done.

It might be advantageous to deal with Exhibits 1017, 1003, and 1064 in the manner in which they have been dealt with by Mr. Howson :

1. Exhibit 1017, pages 1 to 6 :

Page 2 shows that from the year 1926 to the year 1935, taken collectively, there was only one year, i.e. 1931, during which the reporting mills did not make a profit on the capital invested in the industry or on sales. In the year 1935, the return on the whole showed 6.3% on capital employed in operations, whichwas the highest return during

any year in the 10 year period. The years 1933 and 1934 showed 5.8% and 5.6% respectively, as against 2.6% and 3.8% respectively, for the years 1928 and 1929 on capital employed in operations. The return on sales for the years 1927, 1928, and 1929 was 5.6%, 2.9% and 4.5%, respectively, while the return on sales for the years 1933, 1934 and 1935 was 5.2%, 4.8% and 4.7% respectively.

It must be borne in mind that this is the record of the whole of the reporting companies, including the Dominion Woollens and Worsteds, concerning the operations of which further comment will be made.

2. Exhibit 1017, pages 7 and 8:

Pages 7 and 8 deal with the affairs of the above companies with the Dominion Woollens and Worsteds excluded. On page 8 it is shown that there was always a net profit on the capital employed in the industry throughout the 10 year period.

The return on the capital employed in the industry was, during the year 1935, 8.7%, as against the highest return of 5.5% for any of the years under review prior to the depression years. The years 1933, 1934 and 1935 showed 7.8%, 6.1% and 8.7%, respectively, on capital employed in operations. The years 1926, 1927 and 1928 showed 5.3%, 5.5% and 2.2% , respectively, on capital employed in operations.

There was always a net profit on sales throughout the 10 year period. For the years 1933, 1934 and 1935, it was 7.2%, 5.5% and 6.6%, respectively, as against 4.7%, 5.3% and 2.8% for the years 1926, 1927 and 1928, respectively. During the depression years, from 1931, to 1935, the net profit on sales was never below 5% and reached the high

point, in 1933, for the 10 year period, of 7.2% as against the low point in the pre-depression period of 2.8% in the year 1928.

It is submitted that the record of this industry during the depression period is an extremely enviable one when compared with other industries in Canada and in other countries. It is not many industries that can show during the 5 years of the depression, over as large a cross section as dealt with on page 8, consistently higher earnings on capital invested in the business than for the 5 years immediately prior to the depression. In determining on a course in regard to tariff matters for the future, it may well be borne in mind that this industry has not suffered the devitalizing effects of the depression that many other industries have suffered due to conditions both in Canada and abroad, and it may also be borne in mind that the tariff protection the industry has had has enabled it to sustain itself in a more substantial way, at the expense of the consumers, than it was able to do during the preceding 5 years.

3. Exhibit 1017, pages 9 to 12 :

What has been said above is particularly emphasized by a study of the representative companies dealt with on page 9 and 10 of Exhibit 1017. These companies may be classed as those showing good management and may be considered to be representative of the industry, controlling, as they do, well over 50% of the business of the reporting companies. Dur

During the depression years, from 1931 to 1935, the record of earnings on capital employed in operations was :

1931	5.8%
1932	5.2%
1933	9.0%
1934	7.0%
1935	10.7%

During the pre-depression years, which have often been referred to as the prosperity years of Canada, the earnings were :

1926	6.7%
1927	6.8%
1928	3.3%
1929	4.3%
1930	3.9%

It is submitted that it is not unfair to conclude that these companies have taken excessive advantage of the tariff protection given to them in September, 1930, when we find that, during the year 1935, the earnings on the capital employed in the business was three times as great as in the year 1928 and, in the year 1933, over twice as much as in the year 1929.

The net profit on sales from 1931 to 1935 was consistently greater than during the preceding 5 year period. In 1935, it was 8.5% as against 4.4% in 1929 or 3.5% in 1928. That the reporting companies took advantage of the tariff protection to increase the net profit on sales during the depression years is clear from the results shown on page 10. From 1931 to 1935, the net profit on sales was :

1931	7.2%
1932	6.2%
1933	8.5%
1934	6.6%
8.5%	

and for the period from 1926 to 1930 :

1926	5.6%
1927	6.3%
1928	3.5%
1929	4.4%
1930	4.6%

4. Exhibit 1003:

Exhibit 1003 deals with the operations of certain individual companies :

The Brook Woollen Company of Simcoe, Limited:

The exhibit shows that, during the years 1931 to 1935, this company showed net revenue applicable to capital employed in operations as follows :

1931	43.1%
1932	17.9%
1933	27.4%
1934	17.3%
1935	37.3%

as against, during the 5 pre-depression years :

1926	20.6%
1927	41.8%
1928	29.4%
1929	13.9%
1930	12.7%

The percentage of net profit to sales is as follows:

1931	19.9%
1932	8.1%
1933	13.5%
1934	8.3%
1935	17.0%

as against

1926	10.2%
1927	17.0%
1928	14.9%
1929	7.7%
1930	7.7%

Paris Wincey Mills Company, Limited:

The record of net revenue applicable to capital employed in operations, for the depression years, was as follows:

1931	6.2%
1932	6.9%
1933	12.2%
1934	14.3%
1935	12.8%

as against during the pre-depression years:

1926	11.2%
1927	5.9%
1928	4.6%
1929	6.6%
1930	4.3%

The record of net profit on sales for the depression years was as follows:

1931	6.4%
1932	6.9%
1933	9.6%
1934	9.9%
1935	9.2%

as against for the pre-depression years :

1926	6.6%
1927	4.8%
1928	3.8%
1929	4.8%
1930	5.2%

It will be noted that, for the years 1933, 1934 and 1935, the net profit on sales was, during each year, almost three times as much as during the year 1928 and over twice as much as during any of the years 1927, 1928 and 1929.

Paton Manufacturing Company, Limited:

The record of earnings of this company appears to be an exception to the general record of the companies under review in regard to the 5 years of depression and the 5 preceding years. From 1931 to 1935, for the periods ending on the 31st of March of each year, the net revenue applicable to capital employed in operations was:

1931	8.6%
1932	7.4%
1933	6.3%
1934	6.7%
1935	1.7%
1936	9.8%

as against

1926	8.3%
1927	9.1%
1928	6.0%
1929	10.7%
1930	9.2%

An unexplained drastic variation is shown between the year ending March 31st, 1935 and the year ending March 31st, 1936. For the year ending March 31st, 1936, the percentage of net revenue to capital employed in operations was 9.8 % as against 1.7% the previous year.

The net profit on sales from 1931 to 1936 varied from a low of 1.9% in 1935 to a high of 9.3% in 1932. For the period 1926 to 1930, it varied from a low of 6.3% in 1928 to a high of 10.2% in 1927.

Patons and Baldwins, Limited:

This company manufactures worsted yarns only. It commenced business in the year 1929 as a subsidiary of an English company. The profits of the Company continuously increased from the year 1932 to the year 1936. The percentage of net revenue to capital employed in operations for the years 1931 to 1936 is as follows:

1931	22.2%
1932	12.7%
1933	19.4%
1934	22.4%
1935	30.5%
1936	34.2%

For the two years of operation prior to the depression, the percentage of net revenue to capital employed in operations was :

1929	14.0%
1930	14.2%

It will be noted that the profits of this company ran as high as 34.2% in 1936 before payment of income taxes.

The percentage of profit on sales from 1931 to 1936 was as follows:

1931	19.3%
1932	21.7%
1933	24.8%
1934	25.4%
1935	25.9%
1936	25.8%

and for the years 1929 and 1930:

1929	12.1%
1930	9.9%

That this company has taken advantage of the tariff protection given in 1930 to make profits during the depression years far in excess of profits normally made in the industry is quite apparent.

In view of the earning record of this Company throughout the depression years, it is interesting to recall here the tariff protection this company has enjoyed on its product, woollen and worsted yarns.

The Customs Tariff duties were as follows :

Worsted Yarns used by weavers

	British Prefer.	Inter-mediate	General
1907:	12½%	17½%	20%
1928:	Free	10%	12½%
1930:	10%	17½%	20%
and, per pound	10¢	15¢	17½¢
1932 to date:	10%	17½%	20%
and, per pound	7½¢	15¢	17½¢

The above does not take into account certain mohair yarns used mainly by manufacturers of plushes.

Yarns used by Knitters

Bradford Spun Yarns		British Pref.	Inter-mediate	General
1907:		12½%	17½%	20%
1930:		10%	17½%	20%
	and, per pound	10c	15¢	17½¢
1932:		10%	17½%	20%
	and, per pound	7½¢	15¢	17½

Dry Spun Yarns

1907 to 1928 - Practically free of duty on account of draw-back provision.

1928:		10%	17½%	20%
1930:		10%	17½%	20%
	and, per pound	10¢	15¢	17½¢
1932:		10%	17½%	20%
	and, per pound	7½¢	15¢	17½¢

Dominion Woollens and Worsteds, Limited

In 1919 the Standard Woollen Company, Limited, the Auburn Woollen Company, Limited, and the Bonner-Worth Mills, Limited, entered a merger known as Canadian Woollen Mills, This company later purchased the Milton Spinners, Limited, and Otonabee Mills, Limited. The Canadian Woollen Mills, Limited, was then merged with R. Forbes and Company under the name of Dominion Woollens and Worsteds in the year 1928.

Exhibit 1060 contains an exhaustive review of the affairs of this company. It is a report prepared by Mr. G.I. Evans, on behalf of the Bank of Montreal. The following mills owned by the Company are in operation :

(1) The Hespeler Mill, Hespeler

(2) The Bonnerworth Mill, Peterborough

(3) The Orillia Mill, Orillia

(4) The Auburn Mill, Peterborough

Mr. Evans states in this report (Ev. p. 13080) :

> "One very definite purpose of the merger was, therefore, to improve the earning power of the constituent companies through the elimination of duplicated expenses"

and, further,

> "by the ownership of more cards, spindles and looms and other equipment the Company was to be the largest producer under single management and, in consequence, would be able to exert a beneficial influence toward the stabilization of selling prices."

The Company has shown consistent losses from 1930, totalling, in all, $1,911,816.00. Its working capital has been reduced by $2,623,400.00. The surplus of assets over liabilities in June, 1928, was $1,794,200.00; in 1935, $490,000.00.

It is stated that a large part of the loss was due to obsolete merchandise found in the inventories of the merged companies. (Ev. p. 13082)

Since 1928, the Company has experience five complete changes in management. (Ev. p. 13084) Mr. Evans states:

> "The lack of success of the merged companies was due at first to bad management and loss incidental to the clearing out of surplus inventories and obsolete merchandise and, latterly, to the failure to adhere to the original purposes of the merger, particularly (a) to produce substantial economies and (b) through its ownership of large productive facilities to occupy a dominant position in the industry." (Ev. p. 13084)

Of the Hespeler mill, Mr. Evans expresses the opinion that it is over-staffed, supervisors and clerical staff drawing at the rate of $132,024.00 per year. (p.13087)

From 1931 to 1935, the mill lost $779,290.00, notwithstanding the fact that while the mill was operated by Mr. Forbes, prior to entering the merger, it had been a very profitable enterprise.

Of the Auburn mill, Mr. Evans states that this mill was running nearly 40% over day shift capacity and that the mill is over-staffed, principally in accounting and clerical help preparing information for head office statements. This mill made profits during three years of the period from 1931 to 1935 and losses during two years. The total profit amounted to $97,255.00. (Ev. p. 13090)

Of the Orillia Mill, Mr. Evans states that it produces worsted yarns exclusively, which are sold principally to the weaving and knitting trades. It is pointed out that the sales of yarn in the years 1934 and 1935 amounted to only $57,700.00 and salaries during the period, $12,515.00, or 23%. (Ev. p. 13091) Between the years 1931 and 1935, the total losses for the period amounted to $6,107.00. This was without charging the whole amount of bond interest and depreciation. If these were charged the losses would have been increased. (Ev. p. 13092)

However, Mr. Evan's comments must be read in the light of the explanation given by Mr. Barrett, the General Manager of Dominion Woollens and Worsteds, Limited. (Ex. 1061, Ev. p. 13120) Mr. Barrett points out that the sales mentioned by Mr. Evans were merely sales to outsiders and did not take into account $274,358.00 worth of yarn invoiced to other units of the Company at cost and that the salaries paid cannot be charged exclusively against the yarns sold to the public. There, however, appears to

be a very considerable variation between the record of this mill and the record of Patons and Baldwins, Limited, already dealt with, manufacturers of similar types of yarn.

Of the Auburn mill, Mr. Evans states (Ev. p. 13095) :

> "This mill has a particularly poor record and, with the exception of the years 1913 to 1918 for which no records could be obtained, has made heavy losses frequently since 1909."

Since 1931, the total loss was $713,456.00.

Again, (Ev. p. 13096) Mr. Evans comments on the fact that since 1928 no satisfactory manager has been found for the mill. He also criticizes the management for purchases of injudicious quantities of raw material. He states that (Ev.p. 13098) :

> "The management of the Company is conducted academic lines, policies are highly technical and insufficiently practical ....
>
> ...... Departmental organization is carried to extremes and the transmission of head office policies and instructions is through a train of executives and supervisors down to the point of action where it arrives spent and altered in intent. The drive and initiative of owner management is lacking. The management rely on highly complicated cost records to maintain contact with all phases of operations. These statements provide information three weeks or more after the event and apparently do not inspire leadership as red figures appear in the same departments month after month."

Mr. Barrett, the General Manager, in a carefully prepared memorandum (Ex. 1061) dealt with Mr. Evans' criticisms of the affairs of the Company. Mr. Evans criticized the Company for its attitude on price agreements (p. 13103):

> "The management are decidedly against price agreements and although the Canadian Woollen and Knit Goods Manufacturers Association offers a ready means of negotiating price agreements among manufacturers, the Company have not been leaders in this

respect as they should have and, in fact, oppose such arrangements."

Mr. Barrett, in his reply, categorically denies the allegation of Mr. Evans (Ev. p. 13110) and states as follows: (Ev. p. 13112)

"So far from being opposed to price agreements, we are party to a number of these and have always steadily adhered to them."

The answers to the questionnaire sent out by Mr. Howson show that the Company has revised its capital structure by writing down the bond indebtedness from $2,117,000.00 to $1,058,500.00; the outstanding preferred stock, amounting to $1,500,000.00 was cancelled and $1,270,200.00 in preferred stock and 10,585 shares of no par common stock issued to the bond holders in compensation for the writing down of the bonds. The former preferred stockholders received common shares for the preferred stock and the common shareholders had their holdings substantially reduced.

Whether all Mr. Evans' criticism is justified or not, it is quite clear that the record of the Dominion Woollens and Worsteds, Limited, is such that it cannot be taken as a standard for merchandising in Canada on which to base tariff operations for the future.

It must be borne in mind, however, in dealing with the manufacturers of woollen goods that the types of woollen goods manufactured by each of these companies are not the same. The following is a statement of the classes of goods manufactured by the 14 leading companies:

Bates and Innes, Limited	Yarns, overcoating, tweeds, blankets, bed spreads, r rugs and knitted goods.
Barrymore Cloth Co., Ltd	Woollen cloth (mostly women's coatings)
Campbellford Cloth Co., Ltd.	do do
The Brook Woollen Co. of Simcoe Ltd	Yarn dyed and piece dyed woollen fabrics
Hield Brothers, Limited	Serges
Paris Wincey Mills, Limited	Cheviots, tweeds of wool and union flannels
Paton Manufacturing Co., Ltd.	Worsteds and woollens, tweeds, overcoatings, cashmerette and blankets
Patons and Baldwins, Limited	Worsted yarns
Geo. Pattinson and Co., Ltd.	Tweeds, Donegals, blankets overcoatings and chincellas
Porritts and Spencer (Canada) Ltd	Woollen blankets and paper makers' felts
Renfrew Woollen Mills, Limited	Piece dyed and yarn dyed fabrics, worsteds, of wool and cotton and worsted of cotton
Rosamond Woollen Company, Ltd.,	Yarn dyed and piece dyed fabrics
York Knitting Mills, Limited	Worsted, cotton and wool yarns
Dominion Woollens and Worsteds Ltd	Yarns, Woollen and worsted fabrics

5. Ayers, Limited, and Kenwood Mills, Limited:

Exhibits 1064 and 1069 summarize and analyze the record of these two companies for 10 year period from 1026 to 1935. The business of Ayers, Limited, consists of manufacturing paper makers' felts of wool, cotton and asbestos and woollen blankets and miscellaneous cloth lines. The business of Kenwood Mills, Limited, consists of paper makers' felts, blankets, bed spreads and bath robes.

Ayers, Limited

As shown by Exhibit 1064, the ratio of net revenue to capital employed in operations, from 1931 to 1935, was as follows:

1931	4.9%
1932	4.3%
1933	10.2%
1934	11.8%
1935	11.7%

and, for the priod 1926, to 1930 :

1926	14.3%
1927	12.5%
1928	10.3%
1929	7.0%
1930	3.6%

The ratio of net profit on operations to sales, for the avove period was as follows:

1931	12.1%
1932	11.8%
1933	22.4%
1934	20.0%
1935	17.3%

from 1926 to 1930:

1926	18.0%
1297	18.0%
1928	15.4%
1929	9.8%
1930	6.3%

Kenwood Mills, Limited:

This company is a wholly owned subsidiary of F.C. Huyck and Company of Albany, N.Y. The ratio of

revenue from operations to capital employed in operations, for the period 1931 to 1935 is as follows:

1931	16.7%
1932	25.8%
1934	20.5%
1935	26.4%

and, from 1926 to 1930:

1926	24.1%
1927	21.8%
1928	24.8%
1929	15.2%
1930	16.1%

The ratio of net profit in sales to sales for the same periods was as follows:

1931	17.2%
1932	17.0%
1933	27.1%
1934	24.8 %
1935	23.7%

from 1926 to 1930:

1926	24.8%
1927	21.3%
1928	21 .4$
1929	14.7%
1930	16.3%

According to the answers to the questionnaire sent out by Mr. Howson, the Kenwood Mills, Limited, does about one third of its business in blankets and bath robes. The above record of earnings does not indicate that the tariff increases of 1930 were necessary or justified.

Exhibit 814 shows that in 1930 the duties on woollen blankets were increased by adding to the ad valorem duties

of

	British Prefer.	Inter-mediate	General
	$22\frac{1}{2}\%$	30%	35%

specific duties as follows:

per pound	20¢	25¢	30¢

In 1932 the specific duty under the British Preferential tariff was reduced 10¢ per pound.

The extent of these increases has already been dealt with.

6. KNIT GOODS DIVISION

The manufacture of knit goods is more generally distributed among a large number of companies than the manufacture of any other class of textiles. Fifty-three different companies reported to the Commission as being manufacturers of knit goods of one type or another. The majority of the companies reporting are located in the Province of Ontario.

Exhibit 1070 analyzes and summarizes the financial affairs for the ten year period from 1926 to 1935 of six of the leading companies engaged in the manufacture of knit goods in Canada. The companies dealt with are the Monarch Knitting Company, Limited, J.R. Moodie Company Limited, Penmans Limited, The Regent Knitting Mills Limited, Stanfield's Limited, and C. Turnbull Company Limited. These six companies did 38.5% of the total business of the companies reporting in the year 1935, and the four of the six companies that were in business in 1926 did 41% of the total business of the reporting companies.

Penmans Limited is the largest individual manufacturer of knit goods in Canada, doing 17.8% of the total business of the reporting companies in the year 1935, and

23.8% in the year 1926. The company was incorporated in 1906. The company carries on business with mills at Paris, Waterford, Brantford, Almonte, London, St. Hyacinthe and Coaticook. It is controlled by a Board of Directors, all of whom are residents of the City of Montreal, namely Sir Charles Gordon, President, R.B. Maurice, Vice-President, A.F. Baillie, H.B. MacDougall, J.N. Laing, J.P. Black and G.W. Grier.

The Company was incorporated to take over the business of Penman Manufacturing Company. The Penman Manufacturing Company was incorporated in 1882 to take over the business which had been operated by John Penman.

The original capitalization of the Company was $250,000.00 (Ev.p. 9516) with $204,300.00 capital stock issued (Ev.p.9516). In 1893 the Company had accumulated undistributed profits amounting to $273,762.00. Capital stock was distributed among the shareholders pro rata to this amount. (Ev. pp.9517-8).

Subsequent to the issue of this stock divident the Company purchased the Henderson mills at Thorold, the Coaticook Mill, the Ellis property at Port Dover and the Bates Felt property, and issued in all for the purchase of these properties $244,000.00 of capital stock. The capital stock outstanding, therefore, at the date of incorporation of Penmans Limited in 1906 was as follows:

Original capital stock	$204,300.00
Issued for acquisition of properties ..	244,000.00
Issued as stock dividends on original investment of $204,000.00	274,100.00
	$722,400.00

When Penmans Limited was incorporated in 1906, it took over the properties and assets of the Penman Manufacturing Company, Limited, with the exception of an investment of $25,000.00 in the stock of the Paris Plough Company. Prior to the incorporation of Penmans Limited, one D.M. Stewart of the Sovereign Bank, acting on behalf of certain interests, acquired the capital stock of the Penman Manufacturing Company, Limited at $350.00 per share. The amount realized by the shareholders of the outstanding capital of 7224 shares was $2,528,400.00. The result of the business was that for $204,300.00 invested in 1882, and $244,000.00 issued for properties, a total of $448,300.00, the shareholders realized in 1906 $2,528,400.00, and drew 39 dividends in the meantime. The complete record of these dividends was not made available to the Commission, but from the Balance Sheets submitted to Mr. Howson from 1892 to 1904 the half yearly record appeared to be as follows:

1892	$ 8,172.00
1893	$18,068.29
1894	$21,514.56
1895	$21,522.00
1896	$21,522.00
1897	$21,522.00
1898	$21,522.00
1899	$25,109.00
1900	$25,109.00
1901	$25,109.00
1902	$25,109.00
1903	$25,119.50
1904	$28,896.00

which would make an approximate total paid in dividends for the twelve years of $575,000.00., in additional to the dividends for the years prior to 1892 concerning which no information is available.

Penmans Limited was originally incorporated with an authorized capital of 40,000 shares, of which 15,000 were

preferred shares of a par value of $100.00 each, and 25,000 common shares of a par value of $100.00 each. The new company entered into an agreement to acquire the assets of the old company by paying to the Penman Manufacturing Company Limited, or its nominees and assigns, $500,000.00 in cash, $1,500,000.00 in first mortgage bonds (a part of an issued of $2,000,000.00) and $1,000,000.00 of preferred stock, and $2,000,000.00 of common stock, or a total of $5,000,000.00. The remainder of the issue of $2,000,000.00 of bonds that had not been issued as part of the purchase price were apparently sold to provide the $500,000.00 in cash required for the transaction. The profit to the promoters of the company would be $2,000,000.00 in common stock, and $471,600.00 in preferred stock. That is, that all of the common stock and part of the preferred may be considered as stock for which the company received no capital investment. The physical value of the assets acquired by the company amounted to $2,419,953.34, according to the Balance Sheet of Penmans Manufacturing Company dated December 31, 1935, The difference between this figure and the securities issued by the company of $5,000,000.00, was represented on the books by good-will, $2,157,216.35, and an increase in the value of the buildings, plant and machinery of $422,830.31 as determined by an appraisal made for the new interests.

Later in the year 1906, for the purpose of acquiring the Anchor Knitting Company, the Company issued 750 shares of preferred stock, $75,000.00, and 1500 common shares, $150,000.00 for assets of a net value of $124,261.75, the difference, $100,738.25 being added the good-will account.

In 1927, a change was made in the company's share capital when 21,506 common shares which were outstanding, of a par value of $100,00, were exchanged for 64,518 shares without nominal or par value.

Exhibit 1070, page 5, shows the financial record of the company since 1907. It shows that there has been paid in dividends

on Preferred Stock $1,869,375.00
on Common Stock $4,795,838.00

The good-will, amounting to $2,257,953.60 has been written down to $1.00, and the company has to the credit of Surplus and Reserve Account, $2,358,602.12.

In considering the earnings on preferred and common stock, it must be borne in mind that 44% of the preferred stock, and 100% of the common stock was issued as profit to the syndicate organizing the company.

On page 7 of Exhibit 1070 Mr. Howson has calculated the amount of securities that were issued and represented by assets acquired, and the securities that were issued and represented by good-will and inflation of fixed asset values,and has shown the earnings accruing to securities issued for good-will and inflated values. The statement shows that between 1907 and 1935 the company has paid in dividends on securities that were issued for good-will and inflated value, which may be regarded as bonus securities, $5,694,608.00, and the earnings accruing to these securities,as shown by the Reserve and Surplus Account, amount to $4,510,696.00. That is, for no capital investment in the company at all, the promoters of the syndicate that organized the company in 1906, have realized $10,205,304.00.

Exhibit 1Q70, page 4 - The net profit to sales for the years 1931 - 1935, is as follows :

1931	5%
1932	6.1%
1933	7.9%
1934	7.8%
1935	8%

nad from 1926 to 1930 as follows:

1926	8.7%
1927	9.1%
1928	8.1%
1929	9%
1930	5.9%

The net revenue to the capital employed in operations in this Company for the ten-year period under review cannot be taken as any guide in view of the fact that the whole of the capital, with the exception of the portion of the preferred stock and the bonds, is accumulated profit. The net earnings on capital employed in operations, however, are as follows:

1931	3.6%
1932	4.2%
1933	5.7%
1934	5.7%
1935	6%

and from 1926 to 1930 as follows:

1926	7.9%
1927	8.1%
1928	8.4%
1929	7.8%
1930	4.6%

In considering the operations of this Company from the point of view of the consumer, it must be borne in mind that the consumer has contributed to the earnings of the Company $10,205,304.00. Those who invested nothing in the Company have derived the benefit of the consumers' contribution, this amount being $3,000,000.00 more than the total capital employed in the manufacturing operations of the Company. The consumers, in effect, have purchased the entire plant, and presented it to the owners for nothing, and in addition have provided them with

$3,000,000.00 net profit, and $1,904,949.14 for depreciation. (Ex.1075)

From the point of view of the consumers, the matter may be considered by ascertaining the position that the Company would have been in, had it paid no dividends on the bonus preferred and common stock.

Net Current Assets as per books of the Company, after deducting trade & operating liabilities	$2,412,824.98	
Inventory Reserve	150,000.00	$2,562,824.98
Outside Investments		76,100.00
Funds which would be available had dividends of bonus preferred & common stock not been paid (including simple interest at 3% per annum)		7,583,890.00
Value of Land, Buildings & Machinery	5,502,534.16	
Less Depreciation	1,104,403.42	4,398,130.74
		$14,620,945.72
Capital Liabilities		
Bonds Outstanding		$1,776,500.00
Preferred Stock issued for assets		603,400.00
Common Stock issued for Anchor Knitting Co. Ltd and incorporators' shares		40,600.00
		$2,420,500.00
Reserves and undivided profits that would have been available on this basis of calculation		
Amount transferred to Goodwill a/c	$2,257,953.60	
General Reserve	742,046.40	
Inventory Reserve	150,000.00	
Dividends paid on bonus stock issued with simple interest accumulated at 3% per annum, accrued on the bookds of the Company	7,583,890.00	
Surplus at credit of Profit & Loss	1,466,555.72	
		$12,200,445.72
		$14,620,945.72

The result would be that had the company carried on its business on the above basis it would have had

total assets of	$14,620,945.72
against which the only liability would be the bonds outstanding of	1,776,500.00
and preferred stock issued for assets outstanding	603,400.00
and common stock issued for assets	40,600.00
	$ 2,420,500.00

The Company would be in a position to return to the investors their total investment, as above, upon which interest and dividends have been paid throughout the period, own the plant, which has a depreciated value on the books (clear of encumbrance) of $4,398,130.74, and a surplus invested in outside investments of $7,822,314.98.

Monarch Knitting Company Limited.

Exhibit 1070, page 1, deals with a summary of the affairs of Monarch Knitting Company, Limited from the year 1926 to 1935.

The head office of Monarch Knitting Company, Limited, is located in the Town of Dunnville. It has branches in the City of St. Catharines and the City of St. Thomas. Monarch Knitting Company, Limited, was incorporated in 1912 to take over the business of Monarch Knitting Company Limited which had been incorporated in 1908 to take over the business operated by the Monarch Knitting Company, a partnership carried on by A.F.R. Lalor, George H. Orme and John A. Burns. The partnership was formed in 1903 when the three partners contributed to capital $7500.00. Monarch Knitting Company Limited (incorporated in 1908)

consisted of 1500 preferred shares and 1000 common shares of $100.00 par value each. For the $7500.00 invested in 1903, the three partners turned over the business with its accumulation of profit for $150,000.00 in preference shares, and $100,000.00 in common shares (Ev. p.9065). No additional capital was put into the business, except the accumulated profits. According to the Balance Sheet, January 15, 1908, the assets of the Company amounted to $159,000.00. (Ev. p. 9066)

In 1911 the capital of the company was increased, and a stock dividend issued of 1000 preference shares and 1500 common shares. The members of the former partnership were still the holders of the stock of the company. The Balance Sheet of January 15, 1912, showed a total capital and surplus of $781,630.00. (Ev.p.9067)

In April, 1912, the business was sold and a new company was incorporated with the old name. The capital of the new company consisted of 7500 cumulative preference shares of $100.00 each, and 12,750 common shares of $100.00 each. An offering was made to the public of the 7500 7% cumulative preference shares at $100.00, carrying a bonus of 15% of common stock, amounting to a total of 1125 common shares. Of the $1,275,000.00 par value common shares, $1,045,905.00 was represented by good-will, contracts and trade marks. Of these common shares, the management of the former company, which continued in charge of the new company, purchased 10,500 shares, while an additional 250 shares was set aside for employees of the company, and the remaining 875 shares sold privately. There was, therefore, no general offering of common shares outside of the 1125 shares allotted as a bonus to subscribers to the preference shares. The management of the old company really paid for

their shares in the new company out of money they were paid for their shares in the old company by A.E.Ames & Co., "Investment Brokers". (Ev. p. 9072). A.E. Ames & Co. paid the management of the old company $750,000.00 cash for their interest in the old company. (Ev. p. 9072). In Answer to a question in regard to this, Mr. Burns, one of the members of the original partnership and Manager of the present company, stated:-

> "Q, So that three of you got in cash in 1912 $750,000.00 for the original investment of $7,500.00?
>
> "A. That is correct, sir."

Mr. Burns and Mr. Lalor then invested in the new Company, but Mr. Orme withdrew. Certain employees, such as the superintendents, foremen, foreladies, &c. were given about ten shares apiece of the block of 250 shares of common stock as a reward for faithful service (Ev. p. 9073). The net result of the financing was that the only cash capital brought into the company was the $7,500.00 invested in 1903, and $250,000.00 additional cash in 1912. (Ev. p. 9074). Since 1912 the company has earned in net profits $2,443,162.53. It paid out in dividends on preferred stock $889,575.00, dividends on common stock $248,625.00, wrote off as a loss in the Monarch Knitting Company Limited of New York, $649,999.00, and wrote off good-will, $50,000.00, leaving a surplus at the end of December, 1935 of $636,864.43. This record of earnings is after making provision for substantial depreciation out of profits. From 1921-1935, this amounted to $605,000.00, and in addition during the same period, $669,816.00 was charged to profits for repairs. (Ex. 1071).

The tariff protection that the American manufacturers receive is often held out as a justification

for heavier protection for Canadian Textile industries. The success of this company carrying on an indentical business in the United States, compared with the success in Canada over a similar period of years, does not indicate that this Canadian industry has not fared better in Canada.

REPRESENTATIVE COMPANY.

Exhibit 1082, page 14, is a summary of the operations of certain representative companies which, during the ten year period, did from 82.6% to 94.6% of the total business of the reporting companies in the Knit Goods division. All these companies, taken together, made a gross profit before depreciation of 16.6%, or a gross profit after depreciation of 14.2%, or a net profit of 4% on sales. The total net profit for the ten year period amounted to $[illegible],548,885.71.

It must be borne in mind in considering the position of the industry as a whole, that in all cases the net profits are shown after the payment of executive salaries, and in many of the privately owned companies these executive salaries are extremely large, and in some cases appear to be salaries drawn by individuals who spent very little time, if any, in the active management of the business. For example, the Joseph Simpson & Sons Limited pays to one party who appears to be only remotely connected with the management of the business, an annual salary of $31,000.00. The executive salaries of this company for the last three years ran to over $90,000.00 per annum (Ex. 1133). The Eaton Knitting Company paid in executive salaries up to $130,000.00 per annum (Ex. 1105). The J.R. Moodie Company Limited paid in executive salaries up to $70,000.00 per annum. (Ex. 1073).

7. HOSIERY DIVISION

Twenty-five companies reported as being manifacturers of hosiery. In addition to these companies, substantial quantities of hosiery are manufactured by knitting companies, such as Penmans Limited, Monarch Knitting Company Limited etc. The hosiery business consists of the manufacture of silk, cotton and woollen hose, and a small quantity of artificial silk hose. The manufacture of full-fashined women's hose seems to be an industry almost in itself, forming, as it does, a section of the Silk Association of Canada. Exhibits 1147 and 1155 prepared by Mr. Howson summarize the results of the business of the reporting companies for a period of the last ten years. Exhibit 1147 deals with the record of five companies said to be manufacturers of pure silk hose, namely:

Canadian Silk Products Corporation Limited
Gotham Hosiery Company of Canada Limited
Julius Kayser & Co. Limited
Supersilk Hosiery Mills Limited
Weldrest Hosiery Limited

Canadian Silk Products Corporation Limited

The affairs of the Canadian Silk Products Corporation Limited were dealt with at length in evidence. The business carried on by this Company was commenced in June,1924, when the Canadian Silk Products Limited was incorporated. The total amount invested was $48,375.00, for which was issued 450 shares of preferred stock of $100.00 par value, and 675 shares of no par value common stock for which the company received $5.00 per share in cash. In 1926 the company issued bonds to the amount of $60,000.00. During the years 1928 and 1929 the bonds were entirely redeemed. In 1929 Canadian Silk Products Corporation Limited was incorporated, and issued 100 Class A shares for $500.00 cash, and 99,900 Class A shares and 16,875 Class B shares for the acquisition of all the shares of Canadian Silk Products Limited. Between 1925 and 1935

the company's net earnings from manufacturing operations, after payment of income taxes, amounted to $2,159,330.44. Profits were made on securities sold amounting to $33,770.79. Out of these earnings $926,032.50 were paid in dividends, and $1,267,068.73 remain as undistributed surplus and reserve Outside of $150,679.50 written off for loss on investments, the remainder of the earnings still remain with the Company as undistributed surplus and reserve. This is in addition to reserves for depreciation.

Exhibit 1147, page 1, shows the net profit on sales for the depression period to be :-

1931 - - - - - - - -	14.8%
1932 - - - - - - - -	20.4%
1933 - - - - - - - -	20.7%
1934 - - - - - - - -	14.6%
1935 - - - - - - - -	13.7%

and for the pre-depression period :-

1926 - - - - - - - -	18.4%
1927 - - - - - - - -	20.9%
1928 - - - - - - - -	24.3%
1929 - - - - - - - -	23.6%
1930 - - - - - - - -	14.8%

The percentage of net revenue to capital employed in operations, is shown to be:-

1931 - - - - - - - -	37.4%
1932 - - - - - - - -	40.3%
1933 - - - - - - - - -	32.6%
1934 - - - - - - - -	23.3%
1935 - - - - - - - -	19.5%

and for the pre-depression period :-

1926 - - - - - - - -	41.5%
1927 - - - - - - - -	54.5%
1928 - - - - - - - -	88.8%
1929 - - - - - - - -	62.6%
1930 - - - - - - - -	39.8%

The Gotham Hosiery Company Limited.

The Gotham Hosiery Company Limited of Canada, dealt. with on page 2 of Exhibit 1147, is a company incorporated in 1929 by Gotham Silk Hosiery Company Incorporated of New York. The Company subscribed for 500 shares of common stock and paid $50,000.00 in cash. There were no other shareholders. The operating results show very wide fluctuations, from a loss of 14.9% on the capital employed in the industry in 1930, to a profit of 12.6% in 1935. The profits on sales fluctuate as widely.

Julius Kayers & Company Limited.

Julius Kayser & Company Limited is dealt with on page 3. This company was incorporated on the 19th April 1915, and is wholly owned by Julius Kayser & Company of New York. The parent company has invested $575,000.00 in the company.

The record of earnings on capital employed in operations for the depression period and the year 1936, is as follows:

1931 - - - - - - -	16.5%
1932 - - - - - - -	8.9%
1933 - - - - - - -	12.2%
1934 - - - - - - -	20.3%
1935 - - - - - - -	29.5%
1936 - - - - - - -	31.5%

and for the pre-depression period:

1926 - - - - - - -	11.9%
1927 - - - - - - -	20. %
1928 - - - - - - -	29.8%
1929 - - - - - - -	30.5%
1930 - - - - - - -	15.7%

The percentage of net profit on operations to sales for the same period is as follows:

1931 - - - - - - -	11.1%
1932 - - - - - - -	6.8%
1933 - - - - - - -	7.3%
1934 - - - - - - -	10.3%
1935 - - - - - - -	12.7%
1936 - - - - - - -	12.9%

and for the pre-depression period:

1926 - - - - - -	10.9%
1927 - - - - - -	14.5%
1928 - - - - - -	17.9%
1929 - - - - - -	20.3%
1930 - - - - - -	12.3%

Julius Kayser & Company Limited have paid in dividends $1,875,000.00, and have a reserve of $1,812,366.34. The capital employed in operations amounted in 1936 to $1,154,305.00, invested outside of operations, $1,045,565.37; the plant value is $1,831,830.84, and the company has written off for depreciation $1,390,641.82.

Supersilk Hosiery Mills Limited:

The record of earnings on capital employed in operations for the depression years is as follows:-

1931 - - - - - -	11.5%
1932 - - - - - -	6.6%
1933 - - - - - -	8.4%
1934 - - - - - -	4.2%
1935 - - - - - -	5.7%

and for the pre-depression years:

1926 - - - - - -	33.2%
1927 - - - - - -	22.4%
1928 - - - - - -	6. %
1929 - - - - - -	10.6%
1930 - - - - - -	11.5%

The net profit to sales was as follows:-

1931 - - - - - -	9.8%
1932 - - - - - -	6.5%
1933 - - - - - -	7. %
1934 - - - - - -	3.9%
1935 - - - - - -	6.4%

and for the pre-depression period:

1926 - - - - - -	9. %
1927 - - - - -	-11.4%
1928 - - - - - -	2.5%
1929 - - - - - -	7.6%
1930 - - - - - -	8.6%

Weldrest Hosiery Limited:

The percentage of revenue to capital employed in the business for the depression period:

1931 - - - - - -	3.1%
1932 - - - - - -	2.9%
1933 - - - - - -	6.5%
1934 - - - - - -	8.4%
1935 - - - - - -	11.9%

and for the pre-depression period:

1926 - - - - - -	4.6%
1927 - - - - - -	8.4%
1928 - - - - - -	14.2%
1929 - - - - - -	9.4%
1930 - - - - - -	1.3%

The percentage of net profit to sales; for the depression period:

1931 - - - - - -	2.7%
1932 - - - - - -	2.2%
1933 - - - - - -	4.9%
1934 - - - - - -	5.3%
1935 - - - - - -	7.3%

and for the pre-depression period:

1926 - - - - - -	1.5%
1927 - - - - - -	3.5%
1928 - - - - - -	6.6%
1929 - - - - - -	6. %
1930 - - - - - -	1. %

Exhibit 1155 is a consolidated analysis and summary of the business of all the reporting companies and certain representative companies.

Representative Companies:

Pages 7,8,9, and 10 deal with business done by eight representative companies from 1926 to 1935. These companies have all been in business during the whole of the 10-year period. They did 86.2% of the total business of all the reporting companies during the year 1926, and 58.9% of the total business of all the reporting companies during the year 1935.

Pages 11 to 14 deal with eleven representative companies, all of which have been in business since 1930, and eight of which have been in business since 1926. These companies did 84.6% of the total business of the reporting companies in 1926 and 67.3% of the total business of the

reporting companies in 1935.

From 1931 to 1935 the net profit on capital employed in operations of the first group ranged from an average low of 9.9% to a high of 14.1%.

For the period from 1926 to 1930 the net profit on capital employed in operations ranged from an average low of 12.4% to a high of 24.6%. (See page 9).

The net profit on capital employed in operations of the second group for the period from 1931 to 1935 ranged from an average low of 8.8% to a high of 12.3%.

For the period from 1926 to 1930 the average is a low of 10.3% to a high of 23.5%. (Page 13).

The ratio of net profit from operations to sales in the first group for the period from 1931 to 1935 averages from a low of 6.7% to a high of 8.1%.

For the period from 1926 to 1930 it averages from a low of 6.8% to a high of 12.2%. (Page 9).

In the second group, the ratio of net profit from operations to sales was, for the period from 1931 to 1935, an average from a low of 6.8% to a high of 8.1%.

For the period from 1926 to 1930, it averaged from a low of 6.9% to a high of 12%.

Pages 1 to 6 contain a summary and analysis of the business of all the reporting companies.

The ratio of net profits from operations to capital employed in the industry shows the average net revenue to capital employed in the industry for all companies for the period from 1931 to 1935, as follows:-

1931	7.2%
1932	5.5%
1933	6. %
1934	7.3%
1935	8.9%

and from 1926 to 1930:

1926	11.4%
1927	15.7%
1928	16.5%
1929	12.3%
1930	5.6%

The summary on page 14 of the Exhibit shows that the net profit on sales of the Representative companies, taken as a whole over the 10-year period, amounted to 9.1%.

Having regard to the fact that page 6 of the exhibit shows that some of these companies were operated on a basis that they showed at times a loss on sales as high as 33%, it is submitted that the above average net profit on capital employed for all reporting companies during the depression period is exceptional in industry.

8. CARPET DIVISION.

The carpet business in Canada is confined to the operations of five companies: Toronto Carpet Manufacturing Company Limited, Toronto, Ontario; Harding Carpets Limited, Brantford, Ontario; Brinton-Peterboro Carpet Company Limited, Peterboro, Ontario; Guelph Carpet & Worsted Spinning Mills Limited, Guelph, Ontario, and the Cobourg Matting & Carpet Company Limited, Cobourg, Ontario.

The business of the Guelph Carpet & Worsted Spinning Mills Limited has been dealt with in the Woollen Division, as a substantial portion of the business of this Company is spinning woollen and worsted yarn.

Exhibit 1184 deals with the operations of three of the individual companies, namely, the Toronto Carpet Manufacturing Company Limited, Harding Carpets Limited, Brinton-Peterboro Carpet Company Limited,

Toronto Carpet Manufacturing Company:

The ratio of net revenue to capital employed in operations between the years 1931 and 1935 were as follows:-

1931	8.1%
1932	4.3%
1933	5.1%
1934	8.6%
1935	8. %

and from 1926 to 1930 as follows:-

1926	20.7%
1927	26.8%
1928	26%
1929	23.3%
1930	18.6%

Net profit on sales from 1931 to 1935 ranged from a low of 6% to a high of 11.2%.

From 1926 to 1930 it ranged from a low of 9% to a high of 11.1%.

Harding Carpets Limited:

This company cannot be taken as a representative Company of the carpet industry in view of the fact that it commenced operations in 1928 and was not thoroughly established in business before the depression set in. The result of its operations, however, shows that only in the year 1932 did the Company make a substantial loss on capital employed in the operations. In the year 1934 it made 6.2% net profit and in 1935 5.8% net profit, and the Company is now on a dividend paying basis.

Brinton-Peterboro Carpet Company Limited:

The ratio of net revenue to capital employed in operations between the years 1930 and 1936 ranged from a loss of 1.6% in 1933 to a profit of 6.4% in 1931 and 6.3% in 1936.

For the period between 1926 and 1930, the ratio of net revenue to capital employed in operations ranged from a low of 4.2% in 1930 to a high of 14% in 1929.

A more satisfactory picture of the position of the carpet industry in Canada is derived from the study of the individual statements than the study of the consolidated statement in Exhibit 1191. Owing to the limited number of companies engaged in the business, and owing to the fact that Harding Carpets Limited and Cobourg Matting & Carpet Company Limited were new companies starting up within the 10-year period, and that the type of product of the Cobourg Matting & Carpet Company Limited is substantially different from the major portion of the products of the other companies.

9. THREAD DIVISION.

Three Companies reported to the Commission as manufacturers of thread, namely, Bell Thread Company, Limited; Canadian Spool Cotton Company Limited; and Cotton Threads Limited. The affiars of these companies are summarized and analyzed in Exhibit 1202.

For the period from 1931 to 1935 the ratio of net revenue from operations to capital employed in operations shows as follows:

1931	7.8%
1932	11.1%
1933	14.6%
1934	9.9%
1935	14%

For the period between 1926 and 1930 the ratio of net profits from operations to capital employed was:

1926	15.4%
1927	28.9%
1928	24.5%
1929	17.7%
1930	13.9%

Page 5 is a summary of the operations of all the companies, and shows an average net profit on sales, for all companies, of 14.3% for the 10-year period.

On considering the record of the companies engaged in the manufacture of textiles in Canada reference may be made to the following articles of the United Kingdom Trade Agreement of 1932:-

> ARTICLE 10: His Majesty's Government in Canada undertake that protection by tariffs shall be afforded against United Kingdom products only to those industries which are reasonable assured of sound opportunities for success.
>
> ARTICLE 11. His Majesty's Government in Canada undertake that during the currency of this Agreement the tariff shall be based on the principle that protective duties shall not exceed such a level as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production, provided that in the application of such principle special consideration may be given to the case of industries not fully established.

The above articles may form some basis for the guiding principles to be applied in considering profit and investments in relation to tariff protection.

10. COST OF PRODUCTION:

Very little can be said in reference to costs of production in the Textile industry.

It is submitted that the evidence shows that very few of the companies reporting to the commission keep such records as will enable them to state with reasonable accuracy what their cost of production is for any particular fabric.

Mr. Howson, in the questionnaire sent out to all the Textile mills, had a specific form designed to get from the mills information as to the cost of production. (See Sheets 14A, 14B - 14A for the Textile companies and 14B for the horiery and knitting companies - page 12912).

The Dominion Textile Company Limited could not give complete information, and had no means of doing so. It was not able to tie up its standard costs with their actual operating costs. (Pages 12912 and 12913).

Canadian Cottons Limited had what was called standard costs, but it was not able to give any information at all because it did not make any attempt to reconcile standard costs with actual costs, and it was not able to give any information as required in the questionnaire.

Montreal Cottons Limited was practically in the same position.

In many companies charges for repairs and betterments were charged to profits in one year but for the purpose of costing spread over a period of years. Charges for depreciation in the costs did not relate to depreciation put through from year to year (page 12923).

Mr. Howson was unable to reconcile the information contained on the cost sheets for different fabrice filed with the Commission with the manufacturing

costs of the companies, (Pages 12923 and 12924), notwithstanding the fact that the companies had endeavoured to assist him to do so and had given every co-operation that they possibly could (Page 12924).

The return of Canadian Cottons Limited to the Commission, in respect to costs, was a blank. There was no possibility of doing anything with Canadian Cottons Limited. (Page 12924).

The Montreal Cottons Limited did not make a return at all (Page 12924).

Penmans Limited made a very complete return, but it was subject to wide variations from year to year. (Page 12924).

Mr. Howson made a summary for the period from 1926 to 1935 in regard to standard costs and actual costs of Penmans Limited. In some cases the net profit, on the basis of the standard costs, would be greatly in excess of the net profit on the actual cost basis, and in some cases less. The following statement is a comparison of the net profit on the basis of standard cost and actual cost for this ten-year period:

Year	Standard Cost	Actual Cost
1926	$857,184.54	$668,758.46
1927	1,198,080.96	767,869.77
1928	1,126,621.32	689,061.78
1929	1,090,612.95	597,413.95
1930	566,446.94	332,716.91
1931	388,472.96	315,817.48
1932	152,047.86	290,113.70
1933	247,278.07	455,624.27
1934	547,666.44	471,447.64
1935	440,834.17	419,526.68

(Pages 12936)

In a letter to Mr. Howson, dated the 8th October 1936, (Exhibit 968) Penmans Limited stated:

> "The 'Cost per Unit' is our Standard or Normal Cost. It is to be definitely understood that the Cost per Unit as shown has no definite relationship to 'Selling Price per Unit'. Our Standard Costs are used for transferring merchandise from one account to another, pricing inventories, and a basis for determining manufacturing losses or gains. Such costs are not used for price setting." (Page 12938)

The records of Associated Textiles of Canada Limited were sufficiently complete for Mr. Howson to compare the standard costs submitted as their costs of production with the actual manufacturing costs. Associated Textiles of Canada Limited filed with the Commission certain fabrics, together with cost sheets which were stated to show the cost of production. It, however, appears that the costs of production are much lower than the costs shown on these cost sheets. (See evidence of Mr. Howson, page 12943).

On the basis of Company's cost sheets in 1935, the Company showed a loss on operations of $69,000.00. As a matter of fact, the profit for the year was $140,444.00, the difference being a gain in the amounts charged to the costs sheets for material, labour and overhead expenses as against the actual cost of these items. The gain was as follows:

Material	$73,740.
Labour	67,066.
Overhead Expense	68.592.
	$209,398.

From these figures it is quite clear that individual costs prepared on the basis used in the cost system, would be substantially higher than the actual costs of production.

As to the costs, Mr. Cameron of Canadian Celanese Limited, stated: (Page 10669)

> "We are running the factory as a unit today, In any allocation of costs that you get, you might bear in mind that it is a bit of guessing in a factory that is run as a whole unit, which starts as a chemical factory, yarn producing factory, fabrication and dyeing and finishing, and it is all in one unit and labour distribution, where it goes to, is very difficult."

This evidence illustrates the difficulty of relating to tariff protection costs of production, as shown by the records of the companies engaged in the industry.

11. CHARGES TO OPERATIONS FOR DEPRECIATION REPAIRS AND BETTERMENTS

The financial records of the companies under review indicate that these companies have not followed a policy of charging to operations an amount actually required to provide for the depreciation of machinery and plant and those repairs necessary for the purpose of keeping the machines in efficient running condition but that they have charged to operation amounts far in excess of these requirements and large sums for betterment of plant and machinery.

It is submitted that anything charged to operations which is in the nature of excessive depreciation is in fact a capital expenditure and does, in effect, create a secret reserve out of profits.

As has already been pointed out mention was made in Exhibit 329, the booklet published by Dominion Textile Company Limited on the financial history of the Company at page 15, of the depreciation:

> " Which was more than sufficient to take care of actual wear and tear and to cover capital losses as well."

The evidence of A. O. Dawson at page 11366 indicates that the course followed by Canadian Cottons Limited deserves close examination; Mr. Howson's evidence confirms this view.

The following tables taken from the questionnaires submitted by the respective companies, set out in detail the amounts charged to operations for depreciation, repairs and betterments, and thereby deducted from profits, and hence included in costs.

Dominion Textile Company Limited

(Including Dominion Cotton Company Limited and Sherbrooke Cotton Company Limited)

Fiscal Year (1)	Charges to Operations and Reserves for Depreciated or Obsolescent Plant (2)	Charges to Operations for Depreciation (3)	Charges to Operations for Repairs and Betterment (4)	Charges to Operations for Equipment (5)
1906			$ 191,119.60	
1907	$ 57,137.49		148,688.33	
1908	196,627.02		256,900.34	
1909			149,896.01	
1910	97,441.66		226,140.21	
1911			175,199.97	
1912	1,100,000.00		204,078.61	
1913	563,479.86		241,482.79	
1914	225,078.42		294,362.04	
1915	20,239.13		183,810.16	
1916	287,910.77		108,710.79	
1917	181,979.90		412,456.13	
1918	446,454.83	$490,636.52	560,566.68	
1919	438,159.68	881,688.80	494,284.99	
1920	77,521.24	686,912.28	594,820.61	
1921		647,073.98	720,526.51	
1922		1,405,801.54	692,746.20	
1923	13,259.16	868,765.53	667,707.92	
1924		893,376.17	669,131.62	
1925		1,172,137.58	485,074.08	
1926		1,479,315.52	643,816.11	
1927		1,614,297.83	716,339.68	$ 250,845.97
1928	90,713.61	1,075,124.06	482,660.20	234,815.09
1929		1,099,033.40	439,314.41	234,985.10
1930		1,272,036.55	554,051.86	236,164.43
1931		691,099.06	404,924.10	255,396.67
1932		692,396.02	370,260.09	157,660.33
1933		779,768.66	215,082.27	107,198.13
1934		1,406,488.27	336,669.45	149,752.39
1935		1,259,932.05	448,765.83	253,304.46
1936		1,181,684.56	401,677.42	187,477.86
		$19,597,568.38		
Add: Miscellaneous Adjustments		268,422.28		
	$3,640,960.29	$19,865,990.66	$12,491,265.01	$2,067,600.43

Montreal Cottons Limited

Fiscal Year (1)	Charges to Operations for Depreciation (2)	Charges to Operations for Repairs and Betterment (3)	Charges to Operations for Supplies including Equipment (4)
1891	$20,000.00		
1892	40,000.00		
1893	40,000.00		
1894	35,000.00		
1895	40,000.00		
1896	40,000.00		
1897	40,000.00		
1898	40,000.00		
1899	65,000.00		
1900	65,000.00		
1901	65,000.00		
1902	65,000.00	69,605.05	25,769.24
1903	65,000.00	76,721.80	29,438.60
1904	115,000.00	60,326.94	18,341.77
1905	115,000.00	82,146.10	21,278.24
1906	115,000.00	161,255.17	27,663.61
1907	115,000.00	126,804.67	36,224.31
1908	115,000.00	94,463.46	28,953.59
1909	115,000.00	61,934.27	30,590.00
1910	115,000.00	64,825.17	28,408.67
1911	115,000.00	59,485.00	22,750.57
1912	115,000.00	70,151.32	25,626.85
1913	115,000.00	85,412.63	29,721.77
1914	-	66,933.78	30,592.21
1915	115,000.00	81,039.82	32,282.05
1916	115,000.00	77,533.19	42,635.54
1917	115,000.00	95,603.94	38,848.76
1918	122,500.00	348,087.15	54,529.98
1919	180,000.00	389,094.55	91,353.10
1920	180,000.00	335,586.16	118,648.76
1921	282,243.00	243,517.85	127,180.07
1922	282,243.00	238,977.86	175,894.07
1923	-	242,416.14	147,380.81
1924	180,000.00	226,914.39	120,813.39
1925	230,000.00	226,799.62	100,924.65
1926	230,000.00	233,238.94	83,240.83
1927	230,000.00	207,411.85	88,577.54
1928	-	204,627.53	76,761.96
1929	-	151,247.61	77,708.88
1930	-	159,552.15	60,391.33
1931	-	108,905.76	246,644.52
1932	-	44,091.28	217,987.45
1933	200,000.00	42,050.62	231,678.47
1934	322,490.82	40,235.68	341,895.05
1935	330,195.70	43,106.69	249,108.62
	$ 4,884,672.52	4,820,104.14	3,039,845.06
		#	*

(1)	(2)	(3)	(4)
<u>Summary</u>			
1891 to 1914 incl.	$1,770,000.00	(no information)	
1902 to 1914 incl.		1,080,065.36	355,359.43
1915 to 1935 incl.	3,114,672.52	3,740,038.78	2,684,485.63
	$ 4,884,672.52	4,820,104.14	3,039,845.06
		#	*

During revamping program from 1931 to 1935 repairs wages were charged to Wages account instead of Repairs account as previously done. In 1933 $217,000.00 charged Wages account should have been charged to Repairs account.

* This account includes shuttles, bobbins, skewers, card clothing, reeds, fitting boxes, roving cans, spools, factory trucks, heddles, harness, jacquard parts etc. which since 1931 is classified on the books of the Company as "Equipment" but on questionnaire still included under heading of "Supplies".

Canadian Cottons Limited

Fiscal Year (1)	Charges to Operation for Depreciation (2)	Charges to Operation for Repairs and Betterment (3)
1892 - 1905		165,819.00
1905 - 1912		563,780.00
1913	200,000.00	99,665.74
1914	50,000.00	101,257.04
1915	50,000.00	93,070.87
1916	100,000.00	260,274.78
1917	100,000.00	286,484.88
1918	290,000.00	578,591.35
1919	600,000.00	1,027,651.39
1920	800,000.00	663,685.22
1921	200,000.00	1,318,343.57
1922	900,000.00	701,880.19
1923	550,000.00	617,606.42
1924	550,000.00	324,106.30
	* 877,326.12	877,326.12
1925		261,355.60
1926	550,000.00	273,248.79
	* 317,229.35	317,229.35
1927	800,000.00	350,764.91
	* 391,383.51	391,383.51
1928	800,000.00	388,997.25
1929	550,000.00	418,760.80
1930	550,000.00	373,794.91
1931	550,000.00	335,740.55
1932	550,000.00	245,426.95
1933	550,000.00	289,669.13
1934	850,000.00	486,544.78
1935	700,000.00	462,365.84
1936	800,000.00	298,678.55
	$13,225,938.98	9,401,626.01

* These amounts were charged to Repairs Account. They were disallowed, as such, by Income Tax Department, and were transferred to Depreciation Account with approval of Income Tax Department, according to Company's officials, but still remain a charge against operations.

A perusal of the detailed information contained in the above tables indicates that the advent of taxation of profits in some measure altered the general policy of determining what ought to be charged against profits for depreciation and repairs. Prior to 1918, Dominion Textile Company Limited had no Depreciation Reserve but, from time to time, charged to operations certain specific items on account of depreciated or obsolescent plant.

In the year 1917 nearly four times as much was charged against operations for repairs as in the year 1916. This was increased again in 1918, when $560,500. was charged against operations for Repairs. In 1927 $967,185.65 was charged for repairs and equipment against operations.

Mr. Howson stated in his evidence (Page 12335) that the amounts charged for depreciation appeared to be regulated by the amount of profit that the Company earned, rather than any policy of determining the amount required for depreciation. A perusal of the above tables establishes Mr. Howson's view.

For instance, in 1922 $1,405,801 was charged for depreciation; in 1923 $868,765; 1927 $1,614,297.83; but although substantial amounts were added to plant and machinery between 1927 and 1932, only $692,396.02 was charged to operations for depreciation during the latter year.

In the year 1936 $1,181,000 was charged to operations for depreciation, $401,000 for repairs and $187,000 for equipment, making, in round figures, $1,700,000 charged to operations in the one year for plant replacement.

If there were no taxing statutes in Canada, the

Directors and Shareholders of the Company would be the only ones legally interested in knowing what the corporation charged to operations in any one year for depreciation, repairs or plant equipment, but in view of the interest of the public on account of the customs laws, and the interest of the Government on account of the income tax laws, the both have a vital interest and the Government has a definite legal interest.

If the contention is correct that there has been a large secret reserve built up by Dominion Textile Company Limited out of profits by excessive charges for depreciation, and charges of capital expenditures to operating account amounting to about 15 million, this Company has had profits of about one million dollars per year since 1920, other than those disclosed in its public statements.

The above table referring to Canadian Cottons Limited indicates that this Company followed the same erratic policy in making charges to operations for depreciation and repairs, and that no Depreciation Reserve was set up until the year 1913.

In the year 1914 the amount charged for depreciation was $50,000; in the year 1918 $290,000; 1920 $800,000; 1922 $900,000; 1927 $800,000. From 1929 to 1933 $550,000 each year; 1934 $850,000; 1935 $700,000; 1936 $800,000.

In the years 1934 and 1935 $486,500 and $462,300, respectively, was charged to operations for repairs, but in the years 1932 and 1933 the amounts were $245,000 and $289,000, respectively.

As has already been stated the evidence that has been given, which has in no sense been met by the Company shows that there have been excessive charges to

depreciation and repairs by over nine million dollars, Exhibit 917, Page 4). There appears, therefore, to have been several million dollars more earned in profits by this company than has been disclosed to the public.

The above table in reference to The Montreal Cotton Company Limited shows that it is the only one of the large companies that has had a regular depreciation reserve over a long period of years prior to the date on which the taxing statutes came into effect.

The appropriations to the Depreciation Reserve have apparently been founded on some constant policy. The same amounts were appropriated for several years and then increased and remain constant for a further period of years.

From 1904 to 1917 the amount appropriated annually was $115,000, with the exception of 1914, when there was no appropriation. Down to the year 1917 the appropriations for repairs and supplies appear to have been relatively moderate. In the year 1918 the appropriation for repairs was $348,000, as against $95,000 for the year 1917, $77,000 for the year 1916, $81,000 for 1915, $66,000 for 1914, etc. In the year 1919 $389,000 was charged to operations for repairs. In the year 1920 $335,000 was so charged.

In the year 1919 the amount charged to operations for depreciation was increased to $180,000. From 1928 to 1932 no charges were made to operations for depreciation. In 1933 to 1935 the amounts varied from $200,000 to $330,000.

From 1931 to 1935, very heavy charges were made against operations for repairs and supplies. The amount charged in 1931 for supplies was $246,000, as against

$60,000 in the previous years. It reached the high point in 1934 of $341,000.

As is pointed out above, all the charges shown on the tables against operations for repairs and supplies are in addition to the charges in the Wage Account for mechanics and artisans who were engaged on revamping the plant, which were charged to Operating Account instead of Capital Account. (Page 13700).

The following tables taken from the questionnaires filed by a number of the reporting companies indicate that the practice followed by the foregoing Cotton companies is followed to a large degree throughout the textile industry. The information contained therein shows that charges to operations under the headings of Repairs and Betterments require very close scrutiny in order to determine the real profits of the companies when, at the same time, heavy appropriations are made out of profits for depreciation. It is quite clear that the published balance sheets of these companies can in no sense be relied on to determine the real profits of the companies.

Summary of Charges to Operations for Depreciation, Repairs and Betterments for 10 Year Period Reviewed.

Cotton Companies

Name of Company	Depreciation	Repairs & Betterments
Dominion Textile Co. Limited (*Not complete)	$10,471,860.46	* 6,437,345.74
Canadian Cottons Limited	6,700,000.00	3,650,743.67
The Montreal Cottons Limited (*Not complete) (No depreciation set up 1928 to 1932 inclusive)	1,542,686.52	* 2,908,462.56
Wabasso Cotton Co. Limited (* Seven years only, no details for 1928, 1929, 1930)	2,543,287.72	* 646,618.71
Cosmos Imperial Mills Limited (* Five years only. No details for other years)	931,734.51	* 235,266.78
Drummondville Cotton Co. Limited 1930 to 1936 only	1,109,258.64	215,634.65
Hamilton Cotton Co. Limited 1928 to 1935 only	485,549.61	268,416.46

Artificial Silk Companies

Name of Company	Depreciation	Repairs & Betterments
Canadian Celanese Limited 1928 to 1935	$ 1,725,853.66	1,175,105.50
Courtaulds (Canada) Limited	4,553,352.09	1,813,198.25

Silk Companies

Name of Company	Depreciation	Repairs & Betterments
Associated Textiles Limited 1930 to 1935 only	$ 368,659.40	164,396.08
Belding-Corticelli Limited	1,214,423.75	531,941.81
Bruck Silk Mills Limited	648,486.79	169,761.79
Grout's Limited	353,966.22	201,426.13
Woollen Companies		
Bates & Innes Limited (No depreciation charged in 1928 and 1929)	239,828.73	70,611.07
Barrymore Cloth Co. Limited (No depreciation charged in 1928 to 1932 inclusive)	164,500.00	132,940.94
Brook Woollen Co. of Simcoe Limited	278,369.75	66,495.47
Paris Wincey Mills Limited	42,615.04	43,693.37
Paton Manufacturing Co. Limited	310,753.01	139,225.26
Patons & Baldwins Limited 1929 to 1936 only	415,614.94	56,304.64
Woollen & Paper Makers' Felt Companies		
Ayers Limited	1,467,616.75	340,271.55
Kenwood Mills Limited	463,867.56	No details

Knit Goods Companies

Name of Company	Depreciation	Repairs & Betterments
The Monarch Knitting Co. Limited	$ 365,000.00	428,067.72
J.R. Moodie Co. Limited (No depreciation charged for 1935)	262,740.03	90,948.77
Penmans Limited (No depreciation charged 1929, 1930, 1931)	995,000.00	1,185,557.06
Joseph Simpson & Sons Limited	622,558.55	114,301.63
C. Turnbull & Co. Limited	252,040.15	95,876.95

Hosiery Companies

Name of Company	Depreciation	Repairs & Betterments
Canadian Silk Products Limited	985,866.43	80,654.80
Gotham Hosiery Co. Limited 1930 to 1936 only	262,783.97	25,677.10
Supersilk Hosiery Co. Limited	226,337.83	82,175.48
Weldrest Hosiery Limited	294,853.45	127,612.59

Carpet Companies

Name of Company	Depreciation	Repairs & Betterments
Brinton Peterboro Carpet Co. Limited (No depreciation charged in 1933)	321,194.60	230,269.00
Guelph Carpet & Worsted Spinning Mills Limited (1929 to 1935 only)	420,015.59	134,314.50
Harding Carpets Limited (1929 to 1935 only) (No depreciation charged in 1930, 1931, 1932)	144,256.71	32,383.41
Toronto Carpet Manufacturing Co. Limited (No depreciation charged in 1926, 1931, 1932)	295,000.00	146,831.14

PART V.

ORGANIZATION OF THE TEXTILE INDUSTRY:

1. Trade Association:

(A) CANADIAN MANUFACTURERS' ASSOCIATION:

The evidence discloses that the manufacturing industry in Canada is very highly organized. In addition to the organization of the different branches of the textile industry, which will be hereinafter specificly dealt with, most of the individual mills manufacturing textiles are members of the Canadian Manufacturers' Association (Ev. Mr. Macdonnell p. 8927).

The Canadian Manufacturers' Association is incorporated by Act of Parliament, 2 Edward Vll, Chapter 48. The objects of the Association are set forth in the Constitution and By-laws, Exhibit 664, The statute gives the force of law to Articles 1 to lX in Exhibit 664.

The objects are specificly stated to be:-

> "The objects of the Association shall be to promote Canadian industries and to further the interests of Canadian manufacturers and exporters, and to render such services and assistance to the members of the Association and to manufacturers and exporters generally, as the Association shall deem advisable from time to time."

The Constitution provides for certain particular powers of arbitration and inquiry. These powers are, contained in Articles Vll and Vlll, reading as follows:-

> " ARTICLE Vll
> Powers of Arbitration:
>
> (a) The Association may provide by by-law for the appointment of Arbitrators, members of the Association, to hear and decide controversies, disputes or misunderstandings, relating to any commercial matter which may arise between members of the Association or any person whatsoever claiming by, through or under them, which may be voluntarily submitted for arbitration by the parties in dispute.

(b) Members assenting to an arbitration by an instrument in writing shall be understood to have submitted to the decision of the majority of the arbitrators appointed to hear the case and to decide upon the same.

(c) The arbitrators appointed to hear any case submitted for arbitration as aforesaid may examine upon oath (which oath any one of such arbitrators is hereby empowered to administer) any party or witness who appears before them, and shall give their award thereupon in writing, and their decision or that of a majority of them, given in such award shall be final and binding upon the parties.

ARTICLE V111.
Committees of Enquiry

The Association may, by by-law or resolution, provide for the appointment of committees of enquiry to enquire into any matter affecting the manufacturing import or export interest of Canada, and such committees may examine upon oath (which oath nay member of said committee is hereby empowered to administer) any party who appears before them, and the evidence so taken may be used to assist the Association in arriving at a decision with reference to the matter under consideration."

A perusal of these articles indicates powers vested in this Association almost as effective as a Court of Law and a Royal Commission appointed under the Public Inquiries Act. The powers of arbitration may, however, only be invoked when members of the Association voluntarily submit a dispute to the Association. The powers of inquiry are more drastic and more extensive.

The Association may, by by-law or resolution, appoint a committee of inquiry to inquire into any matter affecting the manufacturing import or export interest of Canada. The committee has power to examine witnesses under oath and the evidence taken may be used to assist the Association in arriving at a decision with reference to the matter under consideration. It is difficult to conceive of any matter that might not be within the scope of this article. There are few matters in Canada that do

not effect the manufacturing import or export interests of Canada.

The Association is divided into divisions, branches and trade sections. The divisions are as follows: the Ontario Division, the Quebec Division, the Prairie Division, the Maritime Division, theBritish Columbia Division.

The branches consist of organizations of members in any given district. These branches may be organized with the permission of the executive council.

The trade sections consist of members of the Association engaged in any particular trade or industry, organized with the permission of the executive council into a section.

The annual dues are graded according to the number of employees employed by a member of the Association. Under 10 employees, the annual fee is $25.00; for members employing over 3,000 employees, the annual fee is $1,000.00 plus $100.00 for every additional 500 employees or fraction thereof.

The Association has a particular department that deals with tariff matters. This is a special tariff committee which acts upon applications from members who desire the assistance of the Association in tariff matters. It is the duty of the committee to keep alive to all changes in the tariff or its administration and to keep interested members advised in regard thereto.

Exhibit 665 contains the 1936 annual report of the Canadian Manufacturers' Association. The report of the Tariff Committee is set forth on pages 4 and 5. That the Tariff Committee may operate as a propaganda committee is rather indicated by this report. The following is a quotation therefrom:

"The Tariff Committee is emphasizing that the trade agreement of 1932 was negotiated to a considerable extent on the basis of lowering Canadian duties on manufactured goods imported from the United Kingdom. The average rate of duty imposed on imports from the United Kingdom has been reduced at various times until it is now only about 12 per cent, which gives Canadian industry a very small margin of average protection and really no protection at all on most products if the difference in production costs, including wages, in the two countries is taken into consideration. The Committee is appealing to the Government to safeguard the interests of Canadian industry and industrial employees in any revision of the trade agreement."

For this organization to state to its members and circulate broadcast that the average rate of duty imposed on imports from the United Kingdom is only about 12%, which gives Canadian industry only a very small average protection is extremely misleading. The Association has apparently averaged all dutiable articles whether these articles are free or not under the British Preferential Tariff. It will be noted that many of the imports from Great Britain consist of raw material, machinery and plant equipment of a class or kind not produced in Canada for the use of the Canadian manufacturer and it is in his interest that they should be imported free or at very low rates of duty. To average these articles with manufactured goods on which rates of duty imposed for the protection of the Canadian manufacturer in a published statement to the public, is not treating the public fairly. The fact that these articles are imported free or at low rates of duty is a greater protection to the Canadian manufacturer than if they were subject to duty. The motive that the Association could have, as an association, in making such a statement in its annual report for publication to the public generally must surely have been to discourage any further reductions in customs duties on imports from the United Kingdom. That

they should seek to accomplish it by this statement must surely weaken any case that they may seek to make.

The ramifications of the activities of the Canadian Manufacturers' Association, composed of some 3,200 members, is demonstrated by Mr. Macdonnell's evidence (p. 8923, line 25, and p. 8924). He was asked as to the activities of the branches. His answer was as follows:

> "Well, as I say, there are branches in the big cities and even in smaller places, like Brantford; there is a branch there. The Brantford branch might, and I have no doubt, has, although it isn't within my recollection at the moment, they might take some action on a matter of municipal politics, that is to say, if there was some question which the manufacturers living in that particular area considered had a bearing upon their interests, and they felt that they, as a group of manufacturers, should have something to say about it, they might proceed to do it."

The Association has an industrial relations committee, the duty of which is to study the relations existing between employers and employees (p. 9, Ex. 664). The committee, however, has nothing whatever to do with the question of the wage policy of individual members.

There appeared to be abundant evidence of the activities of the Association for the protection of the interests of its members as to tariff action by the Government and kindred matters. Mr. Macdonnell was questioned as to the activities of the industrial relations committee. There seemed to be very little evidence of any action by the Association that was designed to improve working conditions or to advance the welfare of the employees. Mr. Macdonnell stated that the Association assisted in the working out of the Workmen's Compensation Act in Ontario, but the members who operated the larger plants in Quebec were against the Government workmen's

compensation scheme in that Province. The Association opposed the Industrial Standards Act in the Province of Ontario (Ev. p. 8942).

The Association apparently has no policy designed to meet the same purpose as the Industrial Standards Act. Mr. Macdonnell was asked as to whether the Association had any attitude towards organized labour and collective bargaining (p. 8945, 8946). He stated it did not come within the scope of the Association's activities.

The Association, however, has a very definite policy in regard to protection. At page 8946 of the evidence, Mr. Macdonnell puts it:

> "It is true generally that the Association believes in protection, that is, reasonable protection, as it calls it, for the purpose of encouraging and maintaining Canadian industry."

Mr. Macdonnell stated it was difficult for him to answer the question as to whether the tariff schedules introduced in 1930 were regarded as reasonable protection. In view of the fact, however, that the reason advanced for tariff protection is the protection of the interests of the working man, it is surprising that an association having such definite policies in respect to tariff protection, in the interests of the industry, as Mr. Macdonnell puts it, should have no policy whatever in respect to passing on to the worker the special revenue the protected industries are permitted to collect from the consumers of the Dominion by reason of the protective tariffs asked for by the association as a whole. It appears to be a body demanding private right of taxation, but disclaiming any responsibility in regard to the administration of the funds realized from the consumers after its members have been given this right of taxation.

(B) PRIMARY TEXTILES INSTITUTE:

The textile industry has four definite organizations and, in turn, some of those organizations have special organizations or divisions. The associations in the industry are known by the following names:

Primary Textiles Institute;

Canadian Woollen and Knit Goods Manufacturers' Association:

Cotton Institute of Canada;

The Silk Association of Canada.

The officers of the Primary Textiles Institute are:

Chairman:	W.H. Lundy (Penmans Limited)
Vice-Chairman:	A.V. Young (Hamilton Cotton Company Limited)
Hon. Sec.-Treas:	N.P. MacDougall, (Belding-Corticelli Limited)
Secretary-Treas:	Douglas Hallam.

The Primary Textiles Institute was the last to be organized, in the order of date, and forms a sort of confederation of the other organizations.

The organization of the Institute was discussed at a meeting held in the board room of Dominion Textile Company Limited on August 2nd 1934. Those present were the President, Vice-President and Secretary of the Cotton Institute of Canada, of The Silk Association of Canada and of the Canadian Woollen and Knit Goods Manufacturer's Association. It was agreed at this meeting to organize the Textile Institute of Canada and Mr. Hallam was elected Secretary. Mr. Hallam was at this time Secretary of the Canadian Woollen and Knit Goods Manufacturers' Association, the Cotton Institute of Canada and The Silk Association of Canada.

The constitution of the Primary Textiles Institute was formally adopted on January 16th, 1935. A copy of the

constitution is contained in Exhibit 1245.

Article 9 provides for financing the operations of the Institute:

> "Finances: Each group shall levy and collect fees provided for under their own by-laws and deposit same in their respective bank accounts. A deposit fund shall first be established by the transfer to the Primary Textiles Institute of $ as follows: Silk Association of Canada ; Canadian Woollen and Knit Goods Manufacturers' Association ; Cotton Institute of Canada , which shall form a working fund estimated to finance the Institute for three months. Out of this fund shall be paid the several expenses of the Institute, including theMontreal branch. As soon as possible after the end of the montha statement shall be prepared of the expenditures of each group and forwarded to the President of each group with a cheque for his signature covering the amount of the statement. Extraordinary expenses, such as Tariff Board hearings, etc., shall be arranged for by each group separately through their President and Vice-President, or other nominees."

The objects of the Association are stated to be:

> "The promotion and maintenance of the interests of the primary textile industries in Canada - Wool, Silk, Cotton, Rayon, in all their branches, by concerted and harmonious action and by the interchange of ideas, and by all other proper means."

It is stated in Article 4:

> "Method: To attain its object the Institute will operate three textile groups:
>
> (1) The Silk Association of Canada.
> (2) Canadian Woollen and Knit Goods Manufacturers' Association.
> (3) Cotton Institute of Canada.

The membership is provided for under Article 5:

> "Membership: The membership of the Primary Textiles Institute shall consist of six members, the Presidents and Vice-Presidents of the three groups, or, in lieu of a President or Vice-President for any group, then not more than two members appointed by that group. No fees are paid to the Primary Textiles Institute by the members."

At the organization meeting held on the 6th. of December, 1934, the members of the Cotton Institute of Canada agreed to pay a share of the costs, not less

than $15,000.00 per annum, $11,000.00 of which was allocated to the maintenance of an office in Montreal.

The Primary Textile Institute carries on operations with offices at 350, Bay Street, Toronto, and a branch office at 485, McGill Street, Montreal; the active work of the Institute being performed by Douglas Hallam as Secretary and W.M. Berry as Assistant Secretary.

While the manufacturers had no direct membership in the Primary Textiles Institute, they had direct membership in the three associations, the Silk Association of Canada, the Woollen and Knit Goods Manufacturers Association and the Cotton Institute of Canada. It is not clear from the evidence what the object of forming the federated body was, especially in view of the fact that each of the individual manufacturers had membership in the Canadian Manufacturers' Association, a more comprehensive and dominant body.

(C) CANADIAN WOOLLEN AND KNIT GOODS MANUFACTURERS' ASSOCIATION:

The Canadian Woollen and Knit Goods Manufacturers' Association has been in operation for about 18 years. 70 firms belong to the Association, controlling about 90 % of the production. (Ev.p.7900)

The constitution and by-laws are filed as Exhibit 561. The objects of the Association are contained in Article 2 :

"The object of this Association is to promote by every legitimate means the welfare of the manufacturers embraced within its membership and of the Woollen and Knitting Industry in general. Amongst other means, the following specific methods may be mentioned:

(a) The promotion of legislation calculated to encourage the manufacture of all classes of woollen and knit goods within the Dominion.

(b) The prevention of legislation adversely affecting the interests of the industry.

(c) The collection of statistics and data covering cost of production of wool in Canada and other countries; productive capacity of mills in Canada, wages paid, capital invested and all such similar information as may be considered valuable; the collection of such information as may be obtained relative to the known conditions in countries other than Canada.

(d) Encouragement of sheep breeding for the purpose of increasing the production of wool in Canada.

(e) Encouragement of technical education in Canada, more particularly as it relates to the different processes involved in the conversion of wool into finished material.

(f) Encouragement of the diffusion of technical knowledge amongst the members and their employees by means of lectures and the publication of special papers provided by authorities on different subjects.

(g) Promotion of export business.

(h) Reconciliation of the interests of the different branches of the industry and the promotion of harmony between them, by which means all energies of the members may be devoted to the common benefits.

(i) Promotion and establishment of more friendly relations between the different manufacturers.

There is very little evidence that much of Mr Hallam's time has been consumed in promoting objects (b), (d), (c), (f), and (g). Most of the energies of the Association seem to have been directed either to the promotion of legislation in the nature of protective tariffs or to the promotion of price fixing agreements, which would come under paragraph (h) and (i) of the constitution.

The Association is divided into twelve branches, viz:

Blankets	Knitted outerwear
Carpets	Underwear (mens)
Cloth (wool)	Underwear (Ladies)
Cloth (worsted)	Yarns
Felt	Dyeing, Finishing and Processing
Fine Hosiery	
Heavy Hosiery	

There is evidence of price fixing arrangements having been effective in nine of the above branches. These will be dealt with in detail hereafter.

Th officers of the Association are as follows:

President:	H.W. Lundy, Penmans Limited
Vice-President:	C. Tremblay, Ayers Limited
Sec.-Treas:	Douglas Hallam

<u>Executive:</u>

J. D. Woods	York Knitting Mills Limited
A. E. Craig	Barrymore Cloth Co. Limited
Harvey Douglas	Dupont Textiles Limited

Chairmentof Sections are as follows:

Blankets:	J.Davis, Porritts and Spencer (Canada) Ltd.
Carpets:	P.D. Hayes, Toronto Carpet Manufacturing Co. Limited
Cloth:	J.G.Dodd, Paton Manufacturing Co. Limited
[illegible]:	C.J. Whitney, George Pattinson & Co.Limited
Dyeing:	D.C. Dick, Cobourg Dyeing Co. Limited
Felt:	W.W. Weed, Kenwood Mills Limited
Hosiery:	N.B. Holton, Chipman-Holton Kniting Co.Ltd.
Heavy Hosiery:	Jos. Beaumont, Jos. Beaumont.
Knitted Outerwear:	B.W. Davis, Henry Davis & Co. Limited
Ladies' Underwear:	James Moodie, J.R. Moodie Co. Limited
	J.E.Lennard, S.Lennard & Son,Limited

Men's Underwear:	E. H. Ritchie, Bates and Innes,
Yarn:	H. Quarnby, Guelph Carpet and Worsted Spinning Mills.

Ex-Officio Members of Executive and Past Presidents:

J. A. Burns	Monarch Knitting Company
H. Barrett	Dominion Woollens and Worsteds
Geo. A. Dobbie,	Newlands and Company
C. G. Cockshutt,	Slingsby Manufacturing Company
G. W. Smith.	Mohawk Spinning Mills and Mercury Mills

Members are requested to pay an annual membership fee based on the annual payroll of the preceding calendar year as follows:

2/15th's of 1% with a minimum of $40.00 and a maximum of $400.00.

Associate members pay an annual fee of $33.35.

The operations of the Canadian Woollen and Knit Goods Manufacturers Association will be further dealt with in respect to combinations in restraint of trade operated among its members under the supervision of the Secretary and General Manager, Douglas Hallam.

(D) THE SILK ASSOCIATION OF CANADA:

The Silk Association of Canada was re-organized at a meeting held on the 18th of June, 1929, having then been in operation for about three years. The plan of organization that was adopted was the same as the plan followed by the Canadian Knit Goods and Woollen Manufacturers' Association and the resolution provided that the Secretary of that Association should also be Secretary of the Silk Association of Canada.

Members of the Silk Association of Canada who are not members of the Canadian Knit Goods and Woollen Manufacturers' Association, are required to pay to the Silk Association of Canada annual fees of 1/10th of 1% of the factory payroll, with a maximum of $300.00 and a minimum of $40.00 the fees to be deposited to an account of the

Silk Association of Canada with instructions to the Bank that any balance in excess of $1.00 on the last day of each month be transferred to the Canadian Knit Goods and Woollen Manufacturers' Association. In return for the fees, the Canadian Knit Goods and Woollen Manufacturers' Association provided secretarial and stenographic assistance, office space, printing, etc. A joint committee of three, one member from each Association and one member who belongs to both Associations, administer the joint finances of the associations. (Exhibit 562)

The objects of the Association are set forth in Article 3 of the Constitution:

> " The promotion and maintenance of the Silk and Rayon industry of Canada, in all its branches, by concerted and harmonious action, and by the interchange of ideas, and all other proper means. The elimination of unlawful and unfair practises; maintenance of fair and uniform customs and usages; the compilation of information concerning the Silk and Rayon industries, and co-operation with the Government in enforcing laws relative to the trade and in fixing rates of duty for customs tariff."

On October 7th, 1931, the provision in regard to fees was amended providing that members of the Silk Association, who are not also members of the Canadian Knit Goods and Woollen Manufacturers' Association, pay annual fees of 1/8th of the factory payroll, with a maximum of $400.00 and a minimum of $50.00. Neither Courtaulds (Canada) Limited nor the Canadian Celanese, Limited are members of the Association. With the exception of two or three, the broad silk manufacturers are all members of the Association. (Ev.p.7910)

The following are the officers of the Association:

President: W. P. MacDougall, Belding, Corticelli, Limited.

Vice-President: J. H. Marx, Associated Textiles, Limited.

Secretary: Douglas Hallam

Past Presidents:

John Cowling Louis Roessel and Company, Limited

I. Bruck Bruck Silk Mills, Limited

J. A. Burns Monarch Knitting Company, Limited

Chairmen of Sections:

Broad Silk: J. H. Mark, Associated Textiles, Limited

Dyeing: W. S. Gall, Dominion Silk Dyeing and Finishing Co., Ltd.

Full Fashioned Hosiery: A. C. Hewitson, Nordic Hosiery Co., Limited, Montreal.

Labels: W. R. Walton, Canadian Label and Webbing Co., Limited

Throatsters: A. E. Stewart, A. E. Stewart and Co.
Chairman of the Tariff Committee: E. R. Watson, Grants, Limited.

(E) COTTON INSTITUTE OF CANADA:

The Cotton Institute was organized In March, 1933. The membership embraces the whole cotton weaving trade. (Ev. p. 7915) The members are as follows:

Canadian Cottons, Limited.
Cosmos Imperial Mills, Limited,
Dominion Fabrics, Limited,
Dominion Textile Company, Limited,
Empire Cotton Mills, Limited,
Hamilton Cotton Company, Limited,
Montreal Cottons, Limited,
Wabasso Cotton Company, Limited,

The President is Mr. A. V. Young, Hamilton Cotton Co Limited.

Vice-President: R. G. Tolmie, Canadian Cottons, Ltd

2nd Vice President: W. J. Whitehead, Wabasso Cotton Company, Ltd.

Hon. Treasurer: G. B. Gordon, Dominion Textile Company, Ltd.

Sec. Treasurer: Douglas Hallam

(Ev. p. 7916)

The constitution of the Cotton Institute is contained in Exhibit 559. The objects are stated as follows:

> " The object for which this organization is formed is to create a definite body to protect and further the interests of the manufacturers of cotton yarns and cotton cloth in Canada with particluar reference to:
> (a) The representation of the industry as a unit in dealing with matters affecting the industry.
> (b) The enhancement of the industry in the estimation of the people of Canada."

Finances are provided for in the by-laws of the Institute. Each component company is required to contribute towards the expenses of the Cotton Institute of Canada on a spindleage basis. The rate per spindle to be set by the Board, but with a limit of 2 cents per spindle in any one year. The maximum call shall not exceed ½ cent per spindle per quarter year.

Companies without spinning equipment, or whose spinning equipment is not balanced with their looms, shall be assessed on the basis of 40 spindles perlooom.

It is clear from the records of these associations that the employers in the textile industry are very highly organized for united and concerted action in the Dominion of Canada in respect to any matters that may promote the advantage of the employers. The words of the constitution of the Cotton Institute of Canada aptly describe the general purposes of these associations, " the representation of the industry as a unit in dealing with matters affecting the industry "

Not only have the various branches of the industry organized to promote the interests of the particular branches, that is, manufacturers of silks, cottons and woollens, but they have united their organizations in a strong union to use their combined efforts to promote their mutual advantage.

It does not require conjecture to indicate the vast power vested in such a wealthy and comprehensive organization. That this combination of organizations could use that power to influence the course of the political and economic affairs of the country, is quite apparent. That the members of these associations were willing and ready to use their power for these purposes is clear from the evidence.

The constitution of the Canadian Woollen and Knit Goods Manufacturers Association, in two clauses, gives clear indication that a definite purpose of the organization is to influence the course of legislation in Canada:

> "(a) The promotion of legislation calculated to to encourage the manufacture of all classes of woollen and knit goods within the Dominion.
>
> "(b) The prevention of legislation adversely affecting the interests of the industry."

The following is an extract from Mr. Hallam's evidence in reference to Clause (a):

> "Q. I suppose that would be the promotion of high tariffs? A. If you like to call it high.
> "Q. That is how it is interpreted, anyhow, by the Association? A. I would not think the Association would admit there was such a thing as high tariff." (Ev. p. 7945)

The methods of operation to accomplish the ends sought by the members of the associations are very diversified and their affect is undoubtedly cumulative. They range from the dissemination of propaganda by various means at or about election time to the united presentation of causes before those making and administering the tariff laws of the Dominion.

The propaganda put out in the interests of the industry emanates, for the most part, from the office of Douglas Hallam the secretary of these associations.

The evidence shows that in some cases it is designed only to create a favourable impression in regard to the industry upon the public mind or, in the words of the constitution of the Cotton Institute (Ex. 559), " the enhancement of the industry in the estimation of the people ". In other cases it has been designed to discourage industries from locating in Canada.

Exhibit 659 is a copy of what Mr. Hallam terms a "news release". In a letter to Mr. Marx, the chairman of the broad silk section of the Silk Association, dated February 19th, 1935, Mr. Hallam stated:

> "Attached is a news item release I propose to send out to United States trade papers if you agree. Such items, as you are aware, are hard to write without making them appear to be propaganda. You might wire me if it is O. K. I will have to justify it by writing a letter to the mills along the lines indicated."

On February 25th, 1935, Mr. Hallam wrote to the "Women's Wear Daily" and the "Daily News Record", two trade papers having circulation in the United States of America among manufacturers who might be considering locating in Canada, enclosing a "news itme" in the words of the draft submitted to Mr. Marx. The news tiem was as follows:

" Immediate Release " Feb. 25th, 1935.

Warnings of excess production, based on studies of monthly production to deliveries, and stocks, on hand, have been issued by the Silk Association of Canada to the broad silk mills in Canada producing fabrics from silk and rayon. The Association offices advises the Canadian mills that while in the year 1933 the production fell slightly short of the deliveries in that year in 1934, the production was greater than the deliveries, and that the stocks on hand in January were substantially in excess of previous years, while advance information concerning February 1935 indicated a substantial drop in deliveries over previous years. The warning in part says:

' Great care must be exercised in production because there is machine capacity in excess of requirements. The Canadian mills have now absorbed all the business which was formerly held by foreign mills that they can reasonably expect to obtain and consequently this source of expansion has come to an end. The 1933 and 1934 figures indic-

ate clearly that the market for production of Canadian mills has become static and that no expansion can take place unless conditions in Canada improve to such an extent that the consumer market improves. An improvement of as much as 20 to 25% in the consumer market, and which is not expected, could be taken care of by machinery already installed.'"

No letters sent to the mills containing any such warning as is mentioned in Exhibit 659 have been forthcoming, but, in any case, the letter to Mr. Marx makes it clear that this statement was issued to the American papers as pure propaganda to discourage mills locating in Can-ada. That it is propaganda of a type disguised in its nature is shown by the terms of the letter to Marx,"I will have to justify it by writing a letter to the mills along the lines indicated ". Apparently no such warning was necessary, except in justification of sending this letter to the trade journals in the United States.

There are several other instances of like conduct. In 1933, Douglas Hallam had given some information in regard to the silk industry in Canada to " Women's Wear ". The figures given were apparently correct, but this brought forth a protest from Mr. Cowling, the President of the Silk Association of Canada in a letter dated May 11th, 1933, to Douglas Hallam (Ex.592):

"If you can throw any light on the origin of this article, I should be glad if you would kindly communicate with me, as I do not think it is in the interest of our Trade to publish particulars of this kind which might give the impression to some of our friends in the States that Canada has yet plenty of room for development of the silk industry.

If you do not know at the moment who supplied the material for this article, it might be as well to make inquiried, with a view to stopping this kind of news, which in my opinion would be best left unpublished."

Of the article, Mr. Marx, the chairman of the broad silk section, wrote to Mr. Hallam as follows:

" When I saw this article I immediately took it up with Mr. Cowling, and asked him to write you. I was very much surprised that anybody had given out such figures. Of course, I know that it was not you, but somebody has been very foolish. "

Mr. Hallam, however, acknowledged, in a letter dated May 16th, 1933, that he had given the figures. Writing to Mr. Cowling, he stated:

" In discussing raw material prices and the situation generally I used the figures contained in the clipping. At the time my view was that information on the increase in raw silk prices and such information would give the buyers in Canada something to think about and stimulate business, and I must confess at the time that the point that it might encourage U. S. mills to consider entering Canada was not in my mind as it usually is, when I either write or talk about the silk trade to anyone." (Ex. 592)

On September 25th, 1928, Mr. Hallam wrote to Mr. Watson, the chairman of the tariff committee of the Silk Association of Canada in reference to some publicity that was being put out by the Silk Association of Canada as follows:

" I was very pleased to have your letter of September 24th re publicity for the Silk Industry through the Women's Institutes. The points you made are carefully noted and I believe the work can be done without supplying useful information to foreign firms who may desire to locate in Canada. " (Ex. 656)

Mr. Hallam further points out in the same letter that he is continually getting inquiries regarding particulars of the woollen and knitting industry in Canada, "which have to be most carefully answered", and he refers to an enquiry from a firm, Katakura and Company, which was one of this nature, "and therefore answered it in the way I did".

On April 13th, 1932, P. R. Watson wrote to Douglas Hallam in reference to an announcement that appeared in the "Canadian Textile Journal" in regard to the Manhattan Mills, Limited. Mr. Watson states in reference to this enterprise:

"I am wondering whether we could in good taste draw his attention to the fact that a lot of things might happen at the coming Imperial Conference to make the weaving of rayon in Canada quite a questionable proposition and suggest to him that they should make some enquiries at Ottawa before they start up their plant or postpone same until this question is settled by the Imperial Conference and become members of the Association in the meantime so that we can use this establishment as an argument to further getting adequate protection or at least retaining what we have on the present schedule."

In this letter, Mr. Watson, who is a very influential figure in the Silk Association of Canada appeared to be quite willing to use this mill to add to the list of members for the purpose of argument at Ottawa and, at the same time, to try to discourage the mill from starting up, notwithstanding that he would represent to the authorities in the Government that it was one of the active members of the Association. (Ex.630)

In June, 1932, the "Financial Times" of Montreal published an article indicating that the silk industry in Canada had had a very important expansion during the past couple of years and that it was now facing a condition of over production and that it was doubtful if there was room for additional mills. Mr Hallam sent a copy of this article to the "Silk Journal of America" with a suggestion that they reprint it. (Ex. 657)

On November 1st, 1934, Douglas Hallam wrote to R. H. Arnott, Industrial Secretary of the Vancouver Board of Trade (Ex.416), pointing out that it was unwise to establish a silk industry in British Columbia.

It is submitted that it is clear from the evidence that there was a general course of conduct adopted by the organized textile industry in Canada to discourage the establishment of new plants in Canada. It is not suggested that the members of any industry are not entitled, by fair

and lawful means, to discourage competitors from coming in to the field when the field in that particular industry may be over crowded. It is contended, however, that the action of this industry in this regard is reprehensible in view of the fact that one of the advantages claimed for high protective tariffs, which the organization supports is the development of new industries in Canada and also in view of the conduct of the members of this industry in attempting to destroy competition amongst themselves by organizing within Canada price fixing combines and combinations in restraint of trade in various branches of the industry. It is all part of the cumulative power of organized industry.

There is considerable evidence that there was a concentrated effort to influence the political mind of Canada in such a way that beneficial results would flow to the industry. It is not suggested that the members of the organizations should be criticised for having in mind such an objective. It is the right of any citizen to exercise his political influence in any direction that he may consider is in the welfare of the nation. It is only illustrative of the use of the organized power. Some of the methods followed by members of the industry in this regard would however justify condemnation. These will be more particularly referred to hereafter.

In March, 1934, P. R. Watson wrote to Douglas Hallam as follows:

> "I have just been wondering whether it might not be a good idea to have a meeting of the executive as I don't think it is too early to start to try to put out the propaganda for the collection of the funds for the inevitable which must happen before long, i.e. an election." (Ex.616)

Commencing in April, 1935, Mr. Hallam published a series of ten bulletins which were termed "Study Club Notes" (Ex.615). Mr. Hallam stated in his evidence (p. 8317) that these notes were prepared for a study club which Mr. W. H. Moore a prominent member of Parliament conducted among Liberal members of Parliament at Ottawa and that they were distributed to 25 or 30 Liberal members with textile mills within their constituencies. The evidence, however, shows that they reached much broader circulation than this. These study club notes were found in the files of many of the mills and their general purpose may be indicated in the notes dated April 12th, 1935:

> "So wide-spread is this industry in Canada that mills in the Woollen and Knitting Industry are located in about one hundred federal constituencies"

The industry has the assistance of the "Canadian Textile Journal", published in Montreal, in placing before the public matters that affect the textile industry. The Journal was established in 1883 and on its letter head carries the following statement:

> "Recognixed authority of Canada's textile industry"
> (Ex.614)

It is customary to publish an annual edition of the Textile Manual containing exhaustive information in regard to the industry. In September, 1935, Mr. E. S. Bates wrote to Douglas Hallam, the Secretary of the Primary Textiles Institute as follows (Ex.614):

> "We have a small extra supply of copies of the 1935 edition of the Manual of the Textile Industry of Canada, which I thought you might be able to make good use of in your election campaign efforts. The quantity amounts to upwards of 50 or 60 copies that we can spare.
> We sent copies to the majority of M.P.'s and Senators, including the Cabinet Ministers, but there may be some others, particularly in textile districts, to whom you would like to send copies.

I understand a number of the articles on Textile Towns were reprinted in local papers."

Mr. Hallam replied, stating:

"Some time ago we organized a drive through our members for republishing material from the Journal and got a fairly good response."

It is readily seen the advantages this efficiently organized industry has in promoting its own interests in the Dominion, especially in the absence of any corresponding organizations of consumers or workers.

The evidence shows the possibilities of close co-operation between the industries and the political parties for the purpose of influencing its employees to support a particular political party.

Just prior to the election in 1935, the employees of the Monarch Knitting Company Limited of Dunnville, Ontario, received a pamphlet in their pay envelopes in the form of Exhibit 862. The pay envelopes were duly sealed by the Paymaster, who, according to Mr. Burns, the President and General Manager of the Company, would be responsible (Ev.p.9217). This pamphlet purported to be publishedby the Dominion Conservative organization in the Province of Ontario. The length to which the Company was willing to go in influencing its employees is indicated by the statement contained in the pamphlet. It reads as follows:

> "Mr. King has pledged himself to tariff reductions which will flood the Canadian Market with textile goods from Japan and other foreign countries.
> Do you realize whatthis means to the jobs of 46,000 textile workers in Ontario, of which about 26,000 are women?
> What will happen in the 82 cities, towns and villages of Ontario in which textile plants are located?

The pamphlet goes on to state:

> "Sixty years ago the Conservative Government provided textile tariffs under which a prosperous textile industry was built up in Ontario towns.

Thirty years ago the Liberal Government reduced existing tariff rates and many spinners, weavers and dyers were thrown out of jobs, many lost their homes many had to emigrate. The Ontario villages and towns that lived upon the textile industry were sent into decay."

To say that the dissemination of such propaganda among the workers of the Monarch Knitting Company Limited in the town of Dunnville by the Company itself in the manner indicated was a flagrant breach of duty on the part of an industry enjoying the benefit of protection, is to put it very mildly.

Thirty years ago would take the industry back to 1905. The evidence of Mr. Burns showed that the original investors in the Monarch Knitting Company, the business of which was commenced in the year 1903, invested $7,500.00 at that time and, in the year 1912, drew out in cash $750,000.00 (Ev.p.9072). In addition to that, the evidence shows that during this time the Monarch Knitting Company Limited sent a clergyman to England to select employees to come to work in their factory in Dunnville. So short was labour in the town that the Company paid the way of these immigrants from England to Canada in order that they might fill the vacancies in the mill at Dunnville. Mr. Burns' evidence as to conditions at that time was as follows:

"Q. Have you at all times in the history of your business been able to find employees right here in Dunnville, or in the country, that you needed for the purpose of your industry?
"A. Yes sir; back some years ago, before 1910, we employed every person in Dunnville that was employable, and was desirable for our type of business, and we then had an agency in Glasgow, Scotland, getting us employees and we paid their passage to bring them out to Canada, and we gave them positions at our mill.
"Q. How many did that amount to? A. I don't know how many that amounted to but I remember one time we sent an Anglican clergyman over to Scotland and England, paid his fare and expenses, to

> select employees for us. At that time there were 50 came out in one lot.
> "BY THE COMMISSIONER:"Q. How long ago was that, by the way? A. That would be back about 1909." (Ev.p. 9248)

During this time additional plants were opened at St. Catherines and St. Thomas. Mr. Burns testified (p.9249) as follows:

> "Q. What was the reason or occasion for you opening plants in St. Catherines and St. Thomas?
> A. On account of not being able to get sufficient employees in Dunnville.
> "Q. Was that the sole reason? A. That was the sole reason, because we needed more help and it could not be obtained here so we first opened in St. Catherines --
> " BY THE COMMISSIONER: Q. What year? A. That was 1909 I think it was.
> "Q. When did you open up in St. Thomas?
> A. I think it was a year later."

To represent to the employees, by way of a statement put in their pay envelopes in 1935, that the reduction of tariff rates thirty years ago had caused spinners, weavers and dyers to be thrown out of their jobs, that they had to emigrate and that Ontario villages and towns in which they lived were sent into decay was a shamefully dishonest statement for any employer to make to his employees, much less an employer that had made fabulous profits during the very time that he was picturing to his employees as a time that labourers were losing their homes and migrating and the towns going into decay.

The same Company inserted propaganda in the pay envelopes in the St. Catharine's branch and evidence was given that the nomination paper for a particular party candidate was circulated among the employees and that the "boss" told one Henry Carlson that if he did not sign Lockhart's nomination paper he "perhaps would have no job." (Page 9405)

It may be particularly emphasized that although

these organizations appear to be very active in securing for the industry advantages from the public, they seem to be entirely devoid of activity in the development of any labour policy that would seek to distribute to labour a fair share of the advantages that have been secured to the industry through organization and protective tariffs.

2. Combinations and Monopolies.

(a) Memorandum of Law Affecting Monopolies and Combinations in Restraint of Trade:

There are several provisions in various statutes designed to protect the consumer against exploitation by monopolies and combinations. The Combines Investigation Act, (first enacted in 1923) Revised Statutes of Canada, 1927, Chapter 26, as amended by the statute of 1935, Chapter 54, defines a combine as follows:

> "(1) "Combine" means a combination having relation to any commodity which may be the subject of trade or commerce, of two or more persons by way of actual or tacit contract, agreement or arrangement having or designed to have the effect of,
>
> (a) limiting facilities for transporting, producing, manufacturing, supplying, storing or dealing, or
>
> (b) preventing, limiting or lessening manufacture of production, or
>
> (c) fixing a common price or a re-sale price, or a common rental, or a common cost or storage or transportation, or
>
> (d) enhancing the price, rental or cost of article, rental, storage or transportation,
>
> or,
>
> (e) preventing or lessening competition in, or substantially controlling within any particular area or district generally, production, manufacture, purchase, barter, sale, storage, transportation, insurance or supply, or
>
> (f) otherwise restraining or injuring trade or commerce,
>
> or a merger, trust or monopoly, which combination, merger, trust or monopoly has operated or is likely to operate to the detriment or against the interest of the public, whether consumers, producers, or others."

A merger, trust or monopoly is defined as follows:

"(4) "Merger, trust or monopoly" means one or more persons

(a) who has or have purchased, leased or otherwise acquired any control over or interest in the whole or part of the business of another; or

(b) who either substantially or completely control, throughout any particular area or district in Canada or throughout Canada the class or species of business in which he is or they are engaged;

and extends and applies only to the business of manufacturing, producing, transporting, purchasing, supplying, storing or dealing in commodities which may be the subject of trade or commerce: Provided that this subsection shall not be construed or applied so as to limit or impair any right or interest derived under "The Patent Act, 1935", or under any other statute of Canada."

Penalties are provided under the said Act as follows:

"32. (1) Every one is guilty of an indictable offence and liable to a penalty not exceeding ten thousand dollars or to two years imprisonment, or if a corporation to a penalty not exceeding twenty-five thousand dollars, who is a party or privy to or knowingly assists in the formation or operation of a combine within the meaning of this Act."

Section 498 of the Criminal Code of Canada (first enacted in 1889) is substantially designed to suppress the same sort of combinations as are dealt with by the Combines Investigation Act. It reads as follows:

"498. Every one is guilty of an indictable offence and liable to a penalty not exceeding four thousand dollars and not less than two hundred dollars, or to two years imprisonment, or, if a corporation, is liable to a penalty not exceeding ten thousand dollars, and not less than one thousand dollars, who conspires, combines, agrees or arranges with any other person, or with any railway, steamship, steamboat or transportation company,

(a) to unduly limit the facilities for transporting, producing, manufacturing, supplying, storing or dealing in any article or commodity which may be a subject of trade or commerce; or

(b) to restrain or injure trade or commerce in relation to any such article or commodity; or

(c) to unduly prevent, limit, or lessen the manufacture or production of any such article or commodity, or to unreasonably enhance the price thereof; or

(d) to unduly prevent or lessen competition in the production, manufacture, purchase, barter, sale transportation or supply of any such article or commodity, or in the price of insurance upon person or property.

2. Nothing in this section shall be contrued to apply to combinations of workmen or employees for their own reasonable protection as such workmen or employees. R.S. 1927, c. 36, s. 498."

The above statutes refer to combinations, irrespective of whether they affect articles produced in Canada, under the advantages given by the Customs Tariff laws. The following statutes have special reference to combinations which may affect protected articles: Customs Tariff Act, Revised Statutes of Canada, Chapter 44, Section 15:

"15. (1) Whenever the Governor in Council deems it to be in the public interest to inquire into any conspiracy, combination, agreement or arrangement alleged to exist among manufacturers or dealers in any article of commerce to undly promote the advantage of the manufacturers or dealers in such article at the expense of the consumers, the Governor in Council may commission or empower any Judge of the Supreme Court, or of the Exchequer Court of Canada, or of any superior court or county court in Canada, to hold an inquiry in a summary way and report to the Governor in Council whether such conspiracy, combination, agreement or arrangement exists.

(2) The Judge may compel the attendance of witnesses and examine them under oath and require the production of books and papers, and shall have such other necessary powers as are conferred on him by the Governor in Council for the purpose of such inquiry.

(3) If the judge reports that such conspiracy, combination, agreement of arrangement exists in respect of such article, the Governor in Council may admit the article free of duty, or so reduce the duty thereon as to give to the public the benefit of reasonable competition in the article, if it appears to the Governor in Council that such disadvantage to the consumer is facilitated by the duties of Customs imposed on a like article."

The Combines Investigation Act, R.S. 1927, c. 26, section 29:

"29. Whenever from or as a result of an investigation under the provisions of this Act, or from or as a

result of a judgment of the Supreme Court or Exchequer Court of Canada or of any superior court, or circuit, district or county court in Canada, it appears to the satisfaction of the Governor in Council that with regard to any article of commerce, there exists any combine to promote unduly the advantage of manufacturers or dealers at the expense of the public, and it appears to the Governor in Council that such disadvantage is facilitated by the duties of customs imposed on the article, or on any like article, the Governor in Council may direct either that such article be admitted into Canada free of duty, or that the duty thereon be reduced to such amount or rate as will, in the opinion of the Governor in Council, give the public the benefit of reasonable competition."

The Tariff Board Act, 1931, chapter 55, section 4, subsections 3 and 4:

"(3) The Board may be empowered by the Governor in Council to hold an inquiry under section fifteen of the Customs Tariff, in the same manner as the judge of the Exchequer Court or any other judge therein referred to may be so empowered, and the said section shall include and apply to the Board as if it were therein expressly named.

(4) The Governor in Council may empower the Board to make any investigation or to hold any inquiry authorized by the provisions of the Combines Investigation Act, or of a relative nature, and for these purposes the Board shall have all the powers, authority and jurisdiction vested in the Registrar or in a commissioner appointed under that Act to hold investigations."

While not specifically directed against combines and monopolies, section 17 of the Customs Tariff Act might well be applied where monopolies, price fixing combines and agreements in restraint of trade are found to exist in respect to protected articles:

"17. (1) In the event of producers of goods taking advantage of any duty imposed under this Act to increase the price of such goods to the consumer, or using any such duty to maintain prices at levels deemed by the Governor in Council to be higher than should prevail, having regard to the general economic condition in the country, the Governor in Council may reduce or remove such duty.

(2) In the event of any such producer violating the provisions of this section, the Governor in Council may impose upon all the products of such producer, or any of them, an excise duty equivalent to the amount of customs duty which would be paid by such

goods if the same were imported into Canada under the provisions of the General Tariff, and the same shall be collectible as a tax, and the provisions of the Income War Tax Act as to the collection of taxes shall be applicable hereto.

Provided that neither subsection of this section shall apply to agricultural products. 1931, c. 30, s. 17."

The Canadian legislation affecting combines and agreements in restraint of trade has been before the Courts on several occasions for interpretation. Weidman vs. Sharagge, 46 S.C.R. p. 1, is a very instructive case on the application of Section 498 of the Criminal Code.

The Chief Justice, at page 4:

"It is not necessary, I repeat, that the agreement should be in itself fraudulent or otherwise illegal; and all agreements which prevent or lessen competition today come within the operation of the statute. The dischief aimed at is the undue and abusive lessening of competition which operates to the oppression of individuals or injurious to the public generally and it is for the Courts to say whether in the circumstances of each particular case the mischief aimed at exists."

"Parliament has not sought to regulate the prices of commodities to the consumer, but it is the policy of the law to encourage trade and commerce, and Parliament has declared illegal all agreements and combinations entered into for the purpose of limiting the activities of individuals for the promotion of trade and preventing or lessening unduly the competition which is the life of trade and the only effective regulator of prices is prohibited."

Mr. Justice Iddington, at page 21, makes special reference to the relation of tariff laws and the legislation:

"It may be asked how can prevention or lessening of competition or attempt thereof be an evil when the fact confronts us that the whole business fabric of Canada is founded on restraint of competition? It may be said in face of such fact it is impossible to assign an evil motive or a vicious purpose of any kind in merely contracting to prevent or lessen competition. It may well be indeed that the one is the logical sequence of the other by force of the development thereof or the activities induced

> thereby yet be unjustifiable for those enjoying the benefits of these restrictions to abuse the power thereby given them."

At page 28 Mr. Justice Iddington indicates that the standard of profit cannot be taken as a guide to determining whether an agreement is an undue restraint of trade or not:

> "To apply the standard of profit that might enable the stupid, the slothful, the ignorant, the overcapitalized man working with antiquated machinery and a mill or warehouse over-manned, to compete with the standard that may be fairly reached by men of brains, of energy, of sleepless vigilance, with only adequate capital, to earn dividends for, and all the advantages that the latest improvements, invention or discovery can furnish, would be a sorry one indeed for society."

Honourable Mr. Justice Clute in Wampole vs Karn in 11 O.L.R. p. 619, at page 628 points out that Section 498 of the Criminal Code is closely related to the tariff laws of Canada:

> "The history of the law shows that it was passed at a time when the law relating to the protection of native industry was being introduced. As an objection to the protective tariff, it was argued that combinations might be formed which would destroy competition and so enhance the price; that while upon the one hand foreign goods were excluded, the introduction of which might moderate the price of the article in question, upon the other hand trade combinations might be formed which would destroy competition and greatly raise the price of the commodity to the consumers. To meet that objection, the law against restraint of trade was passed."

In 1931 the constitutional validity of the Combines Investigation Act and Section 498 of the Criminal Code was before the Judicial Committee of the Privy Council for determination. The judgment of the Court appears in 1931 2 D.L.R. page 5. Lord Atkin makes special reference to the relation of this law to the tariff laws of the country. His Lordship uses these words:

> "It is unfortunately beyond dispute that in a country where a general protective tariff

> exists persons may be found who take advantage of the protection and within its walls form combinations that may work to the public disadvantage. It is an elementary point of self-preservation that the legislation which creates the protection should harm the executives with powers of withdrawing or relaxing the protection if abused. The same reasoning applies to grants of monopolies under a system of patents."

(b) Monopolies:

(1) Canadian Celanese Limited - Acetate Yarns and Fabrics:

Canadian Celanese Limited, commenced business in Canada in 1926. The sole business of the company is to manufacture cellulose acetate yarns and fabrics.

A British corporation, known as Cancella Limited, apparently made arrangements to locate a company in Canada for the purpose of spinning and weaving cellulose acetate products in Canada. There appears to be a very close connection between the Canadian company and the sister companies in the United States of America and Great Britain. Four of the directors of the Canadian company reside in the United States of America, three in London, England, and one in Montreal (Ev. p. 10386 - 7). Witnesses called from the Company did not give a very clear statement of the relationship that existed between the Canadian company the American and English companies. It is, however, probably immaterial for the purposes of this inquiry.

In 1927 the subscribed capital stock of the Company amounted to $9,000,000.00 in preferred shares and $981,545.00 in common shares. For this $8,746,000.00 was paid in cash (Ev. p. 10418). In 1926, the Company arranged with the Canadian Government to import a certain quantity of acetate yarns free of duty for experimental purposes in order that it might get established in business here. The financial history of this company

has been dealt with herein.

The evidence discloses that this company, being the only makers of cellulose acetate yarns in Canada, has so planned its operations as to weave almost its entire output of yarns into fabrics. There are 46,666 spindles and 1,330 looms at present in operation in its plant. From 1930 to 1936 the Company enjoyed the full benefit of the tariff protection afforded to artificial silk yarns and fabrics. During this time weavers in Canada desired to purchase cellulose acetate yarns from Canadian Celanese Limited, but were unable to do so commercially due to the fact that Canadian Celanese Limited demanded prices for the yarns that were regarded by the weavers of Canada as prohibitive.

In September, 1930, Canadian Celanese Limited made representations to the Government for increased duties on artificial silk yarns and fabrics (Ex. 742). The company requested the following rates of duties: Under Tariff Item 558b, applying to artificial silk yarns:

British Preferential	Intermediate	General
35%	42½%	50%

with the provision that the minimum duty under any of the tariffs should not be less than 50 cents a pound. Under Tariff Item 561 and 561a. applying to artificial silk fabrics:

	British Preferential	Intermediate	General
per pound	30 cents	30 cents	30 cents
plus ad valorem	35%	50%	52½%

In its letter to the Minister of National Revenue, dated September 5th 1930, the Company stated:

> "On behalf of my Corporation, I definitely state and pledge that the prices of these yarns and the fabrics produced by it will not be increased; what we want is a larger share of the Canadian market."
>
> I understand that it has been represented to you that the Corporation does not sell its yarns to the weaving trade in Canada. We respectfully wish to deny the truth of that statement. We endeavoured to sell yarn to all the textile factories, but failed, except for a few clients, whom we still continue to supply." (Ex. 742).

On March 10th, 1931, the Company wrote to the Commissioner of Customs (Ex. 743) enclosing a letter written to the Prime Minister on the same date complaining of importations of artificial silk fabrics from Japan, of the provisions of the French Treaty and that the rates of duty introduced in 1930 were insufficient.

The Company su ested that, on yarns, the minimum duty should be increased from 28 cents a pound to 75 cents a pound under all three tariffs and that the minimum duty on fabrics should be not less than $1.00 a pound. The Company also suggested that minimum duties be imposed on silk fabrics of not less than $1.25 a pound.

The silk weavers evidently complained to the Government that Canadian Celanese Limited, were not supplying their needs in respect to cellulose acetate yarns. Complaints are referred to by the Company (Ex. 744) and are enumerated as follows:

> "1. We have not the facilities to supply the requirements of these weavers of Celanese yarn.
>
> 2. We have declined to sell such yarn to them.
>
> 3. We charge prohibitive prices for the yarn."

In respect of these claims, the Company makes explicit denial. In regard to the claim that they do not supply yarn to the weavers at satisfactory prices,

the Company states:

"That we have always been, and are ready and willing to supply the yarns to any Canadian fabricator who seriously intends and wishes to produce whole or mixed Celanese fabrics, at prices which do not, and will not, take undue advantage of the Customs Tariff protection. Our prices will be fixed at a figure which will take into consideration the higher cost of production in Canada, due to the larger cost of labour compared with some countries, and much greater production in all competing countries. These prices obviously are, and will be, graded according to quantity. The greater the quantity the lower is the price.

That we recognize it is in our best interests to sell as much yarn as possible, because the greater the production the lower the cost to produce, with consequent lower prices of fabrics and garments, which brings about greater public demand."

The Company's contention is that quantities are a prime factor in fixing the price of yarns and state to the Prime Minister:

"We stand preparedd to execute any bona fide contract for supplying reasonable quantities of our yarn to any Canadian weaver or knitter at fair and reasonable prices."

Mr. Watson of Grout's Limited evidently had been one who complained that he was unable to secure yarn. Of this, the Company says:

"If Mr. Watson, or any of his associates, is prepared to take a reasonably substantial quantity, with regular deliveries, of our yarn per annum, or for any shorter fixed period, he will have no difficulty in reaching an agreement with us, both as respects price and delivery."

The Company further makes the following statement to the Prime Minister:

"Today yarn is being laid down from France at dumping prices against which we cannot compete. For instance, the French price is $1.12 per pound for 150 denier, as compared with our quantity and regular delivery price of $1.35; for 100 denier the French price is $1.20, as compared with the price at which we are prepared to sell of $1.68 and the United States price of $1.65."

In respect to these statements to the Prime

Minister, William McC. Cameron, Vice-President of the Canadian Company, was examined at page 10478. Mr. Cameron stated that no French yarn was sold in Canada at $1.12 a pound. This, notwithstanding the fact that this Company was telling the Prime Minister that these French goods were being dumped in Canada at a price with which it was unable to compete. It is surely no excuse for a company enjoying the privileges that this company enjoyed to take the attitude taken by counsel on its behalf (Ev. p. 10479B):

> "What I meant to say was the letter was being addressed to somebody who should be thoroughly familiar insofar as knowing what the situation was".

That the Prime Minister of Canada should be presumed to know the situation in regard to the dumping of French yarn in Canada and that he should have been presumed to know that this Company was not telling the truth in the statements it was making to him, it is submitted, is most unreasonable.

In April, 1932, Canadian Cottons Limited, desired to buy cellulose acetate yarns for weaving purposes from this company and the correspondence contained in Exhibit 745 ensued. The price quoted for 100 denier cellulose acetate yarn, in hanks, was $1.95 a pound and, for 150 denier, $1.35 a pound. These prices were for orders of not less than 5,000 pounds, to be taken at the rate of not less than 1,000 pounds weekly. Mr. Tolmie, the General Manager of Canadian Cottons, Limited, objected to these prices on the ground that Canadian Celanese Limited, was selling fabric woven from 100 denier yarns at a price of $2.25 a pound. The filling yarn, in the proportion in which the weft yarn was used in the fabric,

if added to the $1.95 a pound, Mr. Tolmie contended, would bring the average cost of the yarn in the fabric to practically the same figure per pound as that at which Canadian Celanese Limited were selling the fabric. (Ev. p. 10608).

It was pointed out in a letter to the Canadian Celanese Limited, dated April 2nd, 1932, that 100 denier cellulose acetate yarn of European manufacture could be landed at the Canadian mills, with the full duty of 28 cents per pound paid and exchange added, at $1.03 per pound. It was also pointed out that on the price asked by Canadian Celanese Limited there was a spread of 60 cents per pound between the 100 denier and the 150 denier yarn, while European producers offered 100 denier yarn at anywhere from 3 to 5 cents a pound higher than for the 150 denier.

Mr. Tolmie testified (Ev. p. 10610) that he had had quotations at the time of this correspondence from W.B. Stewart and Sons, Canadian agents for the Rhodiaseta Company, the makers of the finest grade of French acetate yarns, as follows:

100 denier - $1.06 per pound
150 denier - $1.02 per pound

duty paid in Canadian funds, delivered at the Canadian mills, and from the I.G. Farbenindustrie Aktiengesellschaft of Germany as follows:

100 denier - $1.09 per pound
150 denier - $1.02 per pound

landed duty paid, and on Chatillon, Italian acetate yarn:

150 denier - $1.02 per pound,

landed duty paid.

It will be noted that the duty on all these yarns was 28 cents per pound. The foreign selling price,

plus transportation charges, may therefore be computed without difficulty.

Mr. Tolmie testified (Ev. p. 10613) that the Canadian weavers could not use foreign yarns at the laid down costs and sell the finished fabric made from them at prices competitive with similar fabrics then being offered by Canadian Celanese Limited. It is apparent from this that the 28 cents a pound duty on these yarns gave to Canadian Celanese Limited a complete monopoly in respect to yarns and fabrics made from cellulose acetate.

In a letter to the Minister of Finance on April 22nd, 1932, Mr. Tolmie stated (Ex. 745):

> "We have no hesitation in stating that if the minimum duty of 28 cents per pound under tariff item 558B were to be removed in the case of Acetate yarns imported by legitimate weavers, it would result in the employment of many hundreds of looms that are at present standing idle in Canadian mills."

Canadian Celanese Limited gave explicit and repeated undertakings to the Government that it would not raise prices of yarns and that it would sell yarns to the weavers of Canada generally. In a memorandum to the Prime Minister (Ex 744), dated April 16th, 1931, the Company stated that it had sold substantial quantities of yarn to the Wabasso Cotton ompany at $1.35 per pound for 150 denier and that it was prepared to sell 100 denier at $1.68 per pound. It compared these prices with prices prevailing in Great Britain of $1.32 per pound and $1.65 per pound, respectively, and stated:

> "... it will be obvious to you that we are not trying to exact exorbitant prices or take improper or unfair advantage of the Customs Tariff protection, but on the contrary we have played, and will continue to play, the game with the utmost fairness."

However, one year later, when the Canadian Cottons Limited sought quotations from the Company, the price quoted for

100 denier yarn was $1.95 per pound. Mr. Cameron, of Canadian Celanese Limited, attempted to explain the matter on the ground that they were quantity purchasers, but it will be noted that the price quoted for 150 denier to Canadian Cottons Limited was just the same as the price at which it was sold to the Wabasso Company a year before, and further, a difference of 27 cents a pound could not be accounted for by a mere question of quantity purchase. There seems to be no reason why Canadian Celanese Limited should be permitted to take advantage of the Customs Tariff to demand that Canadian weavers should buy in any such quantities that it would not be economical for them to purchase the yarn. The Canadian weavers are surely entitled to their supplies of cellulose acetate yarns at such reasonable prices as would enable them to weave the yarns and compete with Canadian Celanese Limited in the sale of the finished fabric, or, at any rate, the customs duties and the monopoly enjoyed by Canadian Celanese Limited, should not be permitted to co-operate together to deprive them of that right.

The unreasonableness of the prices asked by the Canadian Celanese Limited is shown by Exhibit 748. The selling price of 100 denier cellulose acetate yarn in the United States in May, 1932, was $1.20 a pound as against the price quoted to Canadian Cotton Limited of $1.95 a pound.

In March, 1933, Slingsby Silks Limited, weavers of silk and artificial silk fabrics, asked for quotations on yarns from Canadian Celanese Limited. For 100 denier yarn, the Company quoted $1.65 a pound as a base price for quantities of 5,000 pounds taken at the rate of 1,000 pounds per week; for larger quantities, down to $1.50 a

pound. For quantities less than 1,000 pounds a week, the Company stated they would have to quote slightly higher prices, For 75 denier, the quotation was $1.95 (Ex. 749). Exhibit 748, a list of selling prices of acetate and viscose yarns in the United States of America shows that, on April 3rd, 1933, cellulose acetate, 100 denier, yarn was selling in the United States of America at 95 cents a pound. Exhibit 752 shows that from June, 1932 to June 1933, cellulose acetate 75 denier, yarn was selling in the United States of America at $1.00 a pound.

On December 14th, 1933, R.P. Sparks, on behalf of a large section of the weavers of artificial silk fabrics in Canada, made an application to the Minister of Finance for a revision of the tariff on cellulose acetate yarns (Ex. 750). The tariff asked for was as follows:

	British Preferential	Intermediate	General
	10%	15%	35%
provided that, in no case, shall the duty be less than, per pound	10¢	15¢	28¢

In the application, the following representations were made to the Minister:

> "Our reason for this request ks that such yarns are produced in Canada by one mill only, and that this mill uses all its production in the manufacture of fabrics. Such yarns, therefore, are not available to other manufacturers producing similar fabrics.
>
> "I might point out that my clients have frequently endeavoured to purchase yarns from the only manufacturer in Canada, but the prices quoted them have always been far in excess of the prices at which similar yarns could be imported, plus duty and landing charges. It is evident to us that the producers of these yarns in Canada are unwilling to supply other manufacturers.
>
> We submit that the sale of Acetate Yarns in Canada is a complete monopoly. Not only the sale of the yarn, but the sale of the fabrics made

from Acetate Yarns is a monopoly. We would point out that Acetate Yarn is a staple commodity, sold on a competitive basis in every country in the world except Canada.

In view of the above fact, we believe the present tariff rates are unjustified and should be reduced in accordance with the rates herein suggested."

The Tariff Board reported in favour of a reduction in duties in 1936. The duties were reduced under the British Preferential schedule to 5%, with no specific duty, but the same specific and ad valorem duties prevail under the Intermediate and General Tariffs, viz. 30% and 35% respectively or 28 cents a pound minimum.

It is submitted that Exhibit 741 is conclusive evidence that Canadian Celanese Limited has monopolized the field in cellulose acetate products in Canada and that the tariff protection granted to the company has enabled it to do so. Since 1930, the Company has manufactured 19,023,166 pounds of yarn, 16,505 of which has been sold to others in Canada, the remainder being used by the Company for its own purposes. That the prices asked by the Company are unreasonable is apparent from Exhibit 753.

The Tariff Board, after hearing evidence on the applications referred to it made an interim report in May, 1934, and a final report in April, 1936. In the final report of April, 1936, the Board find:

(1) That the prices charged by theCanadian Celanese Company in 1935 were completely out of line with the prices of similar yarn in the United States of America and the United Kingdom:

(2) That the process carried on by the Canadian Celanese Company of producing cellulose acetate yarns as an integral part of the process of manufacturing artificial silk should not be considered as commercial production of acetate

yarns in Canada."

The report has been filed with the Commission as Exhibit 1246.

It is submitted that action should be taken to give relief to the consumers of Canada, under the provisions of the following statutes:

(1) The Customs Tariff Act Section 17 sub-section (1)

"17.(1) In the event of producers of goods taking advantage of any duty imposed under this Act to increase the price of such goods to the consumer, or using any such duty to maintain prices at levels deemed by the Governor in Council to be higher than should prevail, having regard to general economic conditions in the country, The Governor in Council may reduce or remove such duty".

(2) The Combines Investigation Act. R.S. 1927, c.26, section 29:

"29. Whenever from or as a result of an investigation under the provisionsof this Act, or from or as a result of a judgement of the Supreme Court or Exchequer Court of Canada or of any superior court, or circuit, district or county court in Canada, it appears to the satisfaction of the Governor in Council that with regard to any article of Commerce, there exists any combine to promote unduly the advantage of manufacturers or dealers at the expense of the public, and it appears to the Governor in Council that such disadvantage is facilitated by the duties of customs imposed on the article, or on any like article, the Governor in Council may direct either that such article be admitted into Canada free of duty, or that the duty thereon be reduced to such amount or rate as will, in the opinion of the Governor in Council, give the public the benefit of reasonable competition."

(2) <u>Courtaulds (Canada) Limited - Viscose Yarns</u>

Courtaulds (Canada) Limited was incorporated in 1928 for the purpose of carrying on the business in Canada that had been commenced by a branch of the English Company, Courtaulds, Limited, in 1924 as Manufacturers of viscose yarns. Courtaulds (Canada) Limited are the only manufacturers of viscose yarns in Canada.

All the shares of the Canadian company are owned by the parent company in England.

On August 18th, 1930, Courtaulds (Canada) Limited submitted a memorandum to the Government requesting an increase in the tariff of customs duties on artificial silk yarns (Ex. 733). The rate of duty asked for was 35%, with a minimum of 28 cents a pound. In the representations to the Government, The Company stated that the knitting trade was in favour of the increase in the tariff, the reason being that yarns were being imported into Canada at less than Courtauld's cost price and that this necessitated knitters making twice the garments for the same turn over as they had three or four years before. It was represented to the Government that the Company maintained tennis courts, a football field, bowling alleys, billiard tables, library, etc., for the use of employees. The evidence disclosed that these were maintained from contributions from the employees.

In a letter dated September 10th, 1930, to the Minister of National Revenue, (Ex.733) the Company stated as follows:

"With reference to the recent application by Courtaulds (Canada) Ltd., for an increase in tariff on importations of Rayon yarn, we respectfully submit to you, in the event of your deciding to grant such increase as we ask, we would definitely guarantee:

(1) that we would not increase our prices above our present price list of June 1st. This is 90¢ a pound for 150 denier 1st. quality (which is the standard count) with prices for other counts in proportion. In explanation we would say we are selling the same count to-day for 75¢ because of huge importations offered considerably below this figure, but we, by doing so, are losing at least 5¢ a pound on every pound of yarn we sell."

In September, 1930, Courtaulds (Canada) Limited, the only manufacturers of viscose yarns in Canada, received the benefit of the increase in Customs duties on artificial silk yarns, as set out in Exhibit 807. These increases were sufficient to give to the Canadian manufacturers 92% of the market for artificial silk yarns. The evidence shows that within two months after these increases became effective, notwithstanding an explicit undertaking to the Government not to increase prices, the Company revised its prices in an upward direction, as disclosed in the following table taken from Exhibit 554:

COURTAULDS (CANADA) LIMITED

DENIER	JULY 17 1930	NOV. 18 1930	IMPORTS LANDED PRIOR TO SEPT. 16 1930, OUR COST BASIS
100- 21 Fil. Reg. A	$1.20	$1.20	$1.15
100- 21 Fil. Reg. B	..	1.10	1.10
150- 24 Fil. Reg. A	.75	.85	.72
150- 24 Fil. Reg. B.	.70	.80	.70
300 "A"	.65	.72½	.62½
300 "B"	.60	.67½	.59
300 "C"	..	..	.57
300 Run of Mill	.65	.67½	..
450 Run of Mill	.65	.70	.59½
500 Run of Mill	.65	.70	.59½

F.O.B. OUR MILLS.

terms : 2½% 30 days or 3½% 10 days.

AMERICAN VISCOSE				COURTAULDS LIMITED ENGLAND		
DENIER		JULY 22 1930	JAN. 9 1931	JULY 30 1930	JAN. 15 1931	PRICE MFR. GETS IN ENGLAND HAVE DEDUCTED 1 s. EXCISE
100- 18 Fil.	1st.	$1.25	$1.10	5/6	4/10½	93¢
100- 18 Fil.	2nd.	1.15	1.00	5/	4/4½	81¢
150- 24 Fil.	1st.	.95	.75	4/1½	3/11½	71¢
150- 24 Fil.	2nd.	.90	.72	3/7½	3/7½	59¢
300-	1st.	.78	.63	3/9	3/6	60¢
300	2nd.	.75	.60	3/3	3/0	48¢
300 "C"		..	..	2/9	2/6	..
450	1st.	.78	.63	..	..	..
450	2nd.	.75	.60	..	..	..
500	1st.	.78	.63	3/8	3/6	60¢
500	2nd.	.75	.60	3/2	3/	48¢

Subject to Bonus of ½ of 1% for each
$100,000 up to maximum of 3% on $600,000.
Cash Discount - 2% 30 days.

The fourth column in the above table shows the burden placed on the Canadian weavers, and untimately on the consumers of Canada, by reason of the advantage taken by the Company of the benefits given under the new tariff schedule adopted in 1930. The above table shows, too, that the sister Company in the United States of America controlled by the parent company in England, and the parent company in England reduced prices on all types of rayon yarns over the same period that the increases were put into effect in Canada.

This action on the part of the Canadian company brought forth a storm of protest from Canadian knitters and weavers. The Eastern Hosiery Mills, Limited, in correspondence contained in Exhibit 733, complained to the Minister of Finance that Courtaulds (Canada) Limited, had refused to fill orders ar prices quoted for delivery up to December 1st, 1930. In December, 1930, the D'Allard Manufacturing Company

Limited, complained to the Department of National Revenue that the price had been raised during the heaviest manufacturing period of the year and that it was too late for them to adjust their prices to the consumer. On December 22nd, 1930, the Eastern Hosiery Mills, Limited, stated to the Commissioner of Customs as follows:

> "The idea behind the entire movement appears to be that by taking away the supply of raw material from the manufacturer of cheap garments, he will be forced out of business or forced to use higher priced yarn and increase the cost of his merchanise, and that the poor people so hardly pressed at the present time shall be forced to purchase higher quality goods at higher prices, in spite of the fact that they have not and cannot obtain the money to purchase these garments."

On December 12th, 1930, the Canadian Consolidated Felt Company, Limited, wrote to the Minister of National Revenue as follows:

> "Prior to the change in duty rate, it was possible to get foreign yarn laid down in Canada at 67¢ per lb. The foreign price has now been raised, on account of duty to 80¢.
> Courtauld's action is very upsetting to the knitting trade, as there was no change made in the duty on knitted fabrics, which comes under the French Treaty. It would seem from the above that Courtauld's have taken advantage of the Tariff to increase their selling price."

As an indication of the power of Courtauld's (Canada) Limited, and the position that the trade was in in Canada in regard to it, the following paragraph may be taken from a letter of the Canadian Consolidated Felt Company, Limited, to the Department of National Revenue, dated December 6th, 1930:

> "We would ask that you do not pass this letter on to Courtaulds Limited as it might be embarrassing to us as they are the only Canadian manufacturers of Rayon."

On December 22nd, 1930, Eastern Hosiery Mills, Limited, submitted to the Commissioner of Customs a brief

setting out the position this company was in in respect to increases that had taken place. The following are some paragraphs taken from this brief (Ex.733):

> "9. This duty is liable to place the industry referred to above at the mercy of the only concern now producing this raw material.
>
> 10. On Dec. 1st, 1930, the day the new tariff came into effect, this concern increased its price on rayon yarn (36 Filament,150 Denier, Delustered) from 87½¢ to 95¢ per pound; a corresponding increase was made in the cheaper qualities.
>
> 13. While rayon prices have been advancing in Canada, they have been dropping outside of Canada and present indications are that further reductions are to be made. Where free competition has been permitted without artificial price agreements, prices have fallen greatly below the Canadian price."

On January 17th, 1931, Eastern Hosiery Mills, Limited, wrote to the Hon. Mr. Rhodes (Ex.733) as follows:

> "I believe the Government should force Courtaulds to restore their former prices or reduce the minimum tariff from 28¢ to 20¢ per lb. and if Courtaulds agree to reduce their price to its former level, that they should also guarantee to keep the market supplied or the Government should allow sufficient importations at the old rate of duty to allow a supply of rayon yarn at a reasonable price to be available.
>
> We do not ask any favours from the Government, but are only asking that they control the rayon situation which we consider is out of control by their failure ot regulate Courtaulds' price when they pass the entire business over to Courtaulds."

On February 18th, 1931, Canadian Cottons, Limited, wrote to the Prime Minister protesting against the increase that had taken place and stating that the advance in Canada in rayon prices had been 10¢ a pound coincident with the parent company in England announcing reductions averaging a shilling a pound, which was followed by producers or rayon yarns in all parts of the world, including the United States of America. Canadian Cottons Limited, requested the Prime Minister to give some relief. The relief, however, that was pressed for was not to procure a reduction of the prices of

rayon yarns, which would have benefited the consumer, but an additional increase in duties on the fabrics. The following is a paragraph from the letter:

> "Please understand, Mr. Bennet, that we have no quarrel with Courtaulds, and wish to see them and all other Canadian manufacturers operating at a profit, but without some readjustment of our raw material (Rayon yarn) prices or a compensating increase in the duty on fabrics made from same, the result can spell nothing but disaster for the producers of Rayon fabrics such as ourselves.
>
> If the present differential between the prices of Canadian and foreign yarns is to be maintained, it is essential that the rates of duty under tariff item #561 be not less than:

	Br. Pref.	Inter.	General
	35%	45%	50%
and per pound	40¢	50¢	50¢ "

On February 19th, 1931, the Prime Minister wrote to the General Manager of Courtaulds (Canada) Limited asking for an explanation of the increase in price. On February 20th, the Company replied, explaining that the price of 150 denier prevailing in September, 1930, was a distress price and stated, as they had stated in Exhibit 733 dated September 10th, 1930, that on every pound of yarn they were selling, they were losing five cents a pound. It is submitted that the Company completely failed to justify any such statement in the evidence given before the Commission.

On March 4th, 1931, the Prime Minister wrote to the Company as follows:

> "I have your letter. I am sorry to say that it is not entirely satisfactory. Apparently you are unable to meet the Canadian demand for this artificial silk yarn. Most of the other countries in the World have been reducing their price for this yarn since the emergency tariff was passed. It is alleged that the quality of your yarn has deteriorated. The question of reducing the duty is under consideration.
>
> I would be glad to hear further from you ."

No action appears to have been taken by the Government

and, according to the evidence of Mr. MacDougall, the increased prices were maintained in Canada until September, 1932. (P.7827)

That this Company misrepresented its trading situation to the Government, is apparent from Exhibit 903. In the year 1930, when the Company stated to the Government that it was losing 5 cents a pound on every pound of yarn that it sold, it made, in fact, 8% net profit on all sales. In the year 1929 it had made 14.1%, in the year 1928 26.9%, in the year 1927 27.8%. In 1931 the profit on sales was 11.2%, in 1932 10.0%, in 1933 11.7%, in 1934 20.5% and in 1935 16.9%.

It is submitted that the consumers of Canada are well entitled to some greater measure of freedom from the dominant control of the monopoly on rayon yarns held by Courtaulds (Canada) Limited, and made possible by protective tariffs, the provision of the Customs Tariff Act, and the Combines Act heretofore referred should be invoked to give this relief.

(c) COMBINES

COTTON YARNS:

Ever since 1880 there has been a consistent elimination and lessening of competition in the cotton industry in Canada by the merging of the companies engaged in the manufacture of cotton in Canada. The spinning of cotton yarns for use in Canada is in the hands of four large companies, Dominion Textile Company, Limited, Wabasso Cotton Company, Limited, Montreal Cottons, Limited, and the Hamilton Cotton Company, Limited. A small amount of yarn is sold by the J.R. Moodie Company, Limited. The cotton yarn producers of Canada supply 96.2% of the market for yarn consumed in Canada (Ex. 894 p.19).

Mr. J. G. Dodd, the Sales Manager of Dominion

Textile Company, Limited, stated in evidence that the major part of the yarn spun in Canada was spun by the four companies named above. Other companies spun yarn for their own use and some sold surplus (Ev.p.11162) Mr. Dodd stated that the mills had a price agreement on yarn (Ev.p.11162-3). The agreement went back many years. The agreement was that each of the mills should charge the customer the same price. Mr. Dodd's evidence (p.11164) was:

> "Q. Now, the agreement is that for yarn of the same count and same quality that you will each charge the customer the same price?
> A. The same price exactly.
> "Q. It is a uniform price to all customers?
> A. Yes.
> "Q. Among these four mills? A. Right."

Exhibit 791 is an example of a price list for counts from 3s/6s to 36s.

Mr. Dodd's evidence indicates that some knitters spin yarn for their own purposes and sell surpluses, but by far the large part of the Canadian market is controlled by the companies within the yarn agreement. In view of the very heavy capital outlay that is required to erect a cotton spinning plant, it will be apparent how detrimental an agreement among the principal manufacturers of cotton yarns may be to the consumers of Canada, especially in view of the high rates of customs duties prevailing at the present time.

FULL FASHOINED HOSIERY:

As has been pointed out, one of the sections of the Silk Association of Canada is the full fashioned hosiery section. From the evidence it is apparent that this section engaged in a determined effort to regulate the prices of full fashioned hosiery in Canada and as far as possible to eliminate competition both from within and without Canada.

In October, 1930, Douglas Hallam, the secretary of the Silk Association of Canada commenced collecting weekly

returns from the manufacturers of full fashioned hosiery, showing the lowest price per dozen and terms at which an order had been accepted for branded and unbranded merchandise during the week.

Separate information was asked for first quality 5 thread and first quality 7 thread; prices to departmental stores and chain stores, wholesalers and jobbers and retailers were required. The secretary of the Silk Association of Canada tabulated these prices under numbers, giving each mill a number, and, in a multigraphed circular, sent out the information so gathered to the reporting mills. (Ex.1236 - No.1). This practice appeared to continue during the year 1931.

In March, 1932, a more definite arrangement was entered into by a substantial number of members of the full fashioned hosiery section of the Silk Association of Canada. 17 out of 22 manufacturers of full fashioned hosiery entered into a definite agreement for the maintenance of minimum prices on full fashioned hosiery.

The method followed was for a committee to meet and determine the minimum prices which should be fixed and for each company to write a letter in identical terms addressed to Douglas Hallam or the Silk Association of Canada. The letter, apparently, followed a form that was sent out by the Secretary of the Silk Association of Canada with instructions to have it copied on the letter paper of the respective mills and signed by a responsible officer of the mill. See Exhibit 568. The following is a sample of the letters contained in the said exhibit:

> "Owing to the fact that misrepresentations are being made as to rpices at which full fashioned hosiery is being sold by mills, and the terms under which it is

sold, with the result that the entire industry is being demoralized, we are giving you the lowest prices at which we sell certain specified goods to anybody in Canada under any circumstances. We have no objection to your disclosing these prices to other hosiery manufacturers. We give no undertaking not to increase or decrease these prices as the raw material and labour costs vary, but do undertake to notify you on the day we make such changes so that your information will always be correct and up-to-date as regards our mill.

Weight of thread based on 13/15 denier weight.

(1) Our lowest price for full fashioned first quality silk hose, six thread, cotton top and f t, is not less than $6.15, tax extra, no discount, F. O. B. Mill, net thirty days, any packing.

(2) Our lowest price for full fashioned first quality silk hose any construction, other than six thread cotton top and foot, is not less than $6.35, tax extra, no discount, F.O.B. Mill, net thirty days, any packing.

(3) Our prices from stock in the west are not less than :

	F.O.B. Mill	Winnipeg Stock	Vancouver Stock
Six thread	$6.15	$6.40	$6.45
Other	$6.35	$6.60	$6.65

All net thirty days, tax extra.

(4) On discontinued lines of the above, or any other higher priced number, if we sell them for less than the prices quoted, we mark "Discontinued" and the mark is applied to the foot of each stocking in letters not less than one quarter inch in height.

(5) All our full fashioned stockings which are not sold as first class are marked on the foot of each stocking with one of the following words in full : "Substandards", "Imperfect", "Irregular" or "Seconds."

By following this procedure, it was evidently intended to make it appear that each company had voluntarily contributed information in regard to the lowest selling price of the company and, in this way, to disguise the fact that the prices which the companies were agreeing to maintain were uniform fixed prices for all the companies. This sentence, contained in each letter, must have been inserted

for the purpose of suggesting to anyone into whose hands the letters might come that there was no pre-arranged agreement:

> "We have no objection to your disclosing these prices to other hosiery manufacturers."

No undertaking was given by any manufacturer not to increase or decrease the fixed prices as raw material and labor costs varied, but each undertook to notify the secretary of the Association on the day that changes were made so that his information would always be correct and up-to-date as regards each mill.

The following is a list of the companies signing the agreement of March, 1932 (Ex.569):

Mercury Mills, Limited,
Belding-Corticelli, Limited,
Kayser, Julius and Company, Limited,
St. John Silk Company, Limited,
Weldrest Hosiery, Limited,
Canadian Silk Products, Limited,
Allen-A Company of Canada, Limited,
L. C. Hudson Company, Limited,
Penmans, Limited,
Toronto Hosiery Company, Limited,
National Hosiery Mills, Limited,
Butterfly Hosiery Company, Limited,
Monarch Knitting Company, Limited,
Nordic Hosiery, Limited,
Supersilk Hosiery Mills, Limited,
Holeproof Hosiery Company of Canada, Limited,
Gotham Silk Hosiery Company of Canada, Limited.

In March, 1933 the form of the agreement was varied by inserting in the preamble after the word "demoralized", "with unfortunate results to employees, retailers and manufacturers", and each manufacturer was bound to notify Douglas Hallam, the secretary of the Association, in writing, 15 days before any changes in price were announced. A new scale of prices was adopted with a minimum price for discontinued lines.

The following manufacturers signed the agreement of March, 1933:

Mercury Mills, Limited,
Canadian Silk Products, Limited,
Allen A- Company of Canada, Limited,
St. Johns Silk Company, Limited,
Kayser, Julius and Company, Limited,
L.O. Hudson Company, Limited,
Bonneville, Smith, Limited,
Circle-Bar Knitting Company, Limited,
Eastern Hosiery Mills, Limited,
Weldrest Hosiery, Limited,
Gotham Silk Hosiery Company of Canada, Limited,
Nordic Hosiery, Limited,
Toronto Hosiery, Limited,
Supersilk Hosiery Mills, Limited,
Penmans, Limited,
Monarch Knitting Company, Limited,
Butterfly Hosiery Company, Limited,
Belding-Corticelli, Limited,
Holeproof Hosiery Company of Canada, Limited,
National Hosiery Mills, Limited.

This agreement remained in effect until July 5th, 1934, when it was again revised and clauses introduced to define branded, and u nbranded lines and wholesaler; and agreements to give no commissions, bonuses, rebates, extra goods not invoiced, premiums, refunds, credits, unearned discounts or subsidies of any kind to a purchaser and no advertising allowances were to be given. Provisions were introduced regarding sales on consignment, refinishing merchandise, rayon content, stamping discontinued lines and the manufacturers agreed to make no allowance for, or erect or provide fixtures for display. In order to ensure the observation of the agreements by those who signed them, the following clauses were introduced:

"12. Audit Check: In order that you may be able to ascertain for yourself exactly how we are carrying out this understanding, we will permit you, or a firm of chartered accountants employed by you, to have access at any time to all records in connection with our full fashioned hosiery business, and that we will bear our share of any expense.

12 a. Any irregularity in the fulfillment of agreements brought to our attention, we will notify the secretary of such infringements by letter. It is understood that copy of such complaint will be filed with the chairman of the group." (Ex. 566)

"It will be noted that most of the agreements contained in Exhibit 566 are on a multigraphed form sent to the mills by Douglas Hallam, the prices having been determined upon prior to the printing of the form. This agreement was signed by 19 of the 22 companies engaged in the manufacture of full fashioned hosiery."

Exhibit 565 contains the agreements signed by 20 of the 22 manufacturers of full fashioned hosiery. On November 6th, 1934, some slight changes occur in the form of the agreement and a substantial revision of the schedule of prices. The agreements were again revised in May, 1935, Exhibit 564, and in September, 1935, Exhibit 563.

The form of agreement adopted was that each mill would sign the same agreement but purport to agree with Douglas Hallam, who was the secretary of the Silk Association of Canada. It appears that the members of the Association seemed to think they got some legal benefit by each agreeing with Hallam that they would charge the prices fixed in the agreements, which in all cases were identical, rather than agreeing among themselves to do so. It is submitted that this subterfuge could afford no legal protection from the consequences of the statutes of Canada directed against combinations in restraint of trade, but was only an effort to give the appearance of legality to an illegal transaction.

Under the provisions of the written agreements, all discontinued lines of full fashioned hosiery were to be stamp -ed as discontinued lines and, before offering a discontinued line for sale at a price lower than the minimum first quality stated in the agreement, each signing member undertook to obtain the permission of Douglas Hallam. Exhibit 572 is a file containing a large number of applications for leave to sell discontinued lines. The application is on a multigraphed form addressed to Douglas Hallam. The name of the mill is set out, the style number, the thread and guage, the price

for first quality, the price proposed to sell at, the number of dozens for disposal and the reasons for discontinuing. After receipt of the application for leave to sell discontinued lines, a discontinued permit was issued, Exhibit 572 contains a number of these discontinued permits. The follow-is a sample of a discontinued permit:

"August 19th, 1935.

DISCONTINUED PERMIT NO 122

The Committee has passed the following "Discontinued" line for Mercury Mills Ltd.

Style No 417, 12 thread, first quality $9.50 tax included, amount 139 dozen.

Reason for Discontinuing Broken sizes and colours, line discontinued a year ago.

Price of Discontinued: $6.00, tax extra, f.o.b. mill.

Number of Boxes: 417/122.

Yours faithfully,

Douglas Hallam,

Secretary."

The Committee that passed on the applications for discontinued lines was composed of Douglas Hallam, Mr. Stothers, Weldrest Hosiery, Limited, Mr. Eastbourne of the National Hosiery Mills, Limited, and Mr. Lawson of the Toronto Hosiery Company, Limited, (Ev.p.8016) A copy of the permit giving leave to sell the discontinued line was apparently sent on a multigraphed form to the members of the Association who were parties to the agreement (Ev.p.8027). It is quite apparent that the purpose of this provision in regard to discontinued lines was to prevent manufacturers, who had agreed to maintain the prices set forth in the agreements, from sell -ing first class hosiery as discontinued lines at a lesser price than that set out in the agreement. (Ev.pp.8055, 8056 and 8060, lines 10 - 25)

It will be borne in mind that the prices fixed in the hosiery agreements were minimum prices, the intention being that the manufacturers should not sell below the common minimum price. In addition to this price arrangement, it was arranged that the manufacturers of full fashioned hosiery should make monthly reports to Douglas Hallam, showing the number of dozens of pairs of manufactured and shipped. These reports were compiled and a multigraphed report sent out to the reporting members showing this information in detail.

The record shows that during the life of the hosiery agreements many complaints came in to Douglas Hallam respecting the action of the agreeing members in selling below the agreed price. When such complaints were received, Mr. Hallam would endeavour to check up on the information and secure observance of the agreement by the delinquent company.

The Canadian Silk Products, Limited, launched many complaints in respect to other members of the Association. While the Canadian Silk Products Limited did not object to a price agreement, and a strict enforcement of a price agreement, this company objected to the particular type of agreement which it signed from time to time. The particular objection was on account of the fact that the agreement provided for a different schedule of prices for branded and unbranded hosiery, In a letter dated August 5th, 1932, (Ex. 794) from Mr. G. G. Cook of the Canadian Silk Products to Douglas Hallam, it is stated:

> "We have no desire to disturb the general situation but wish to take this opportunity of assuring you that unless the Silk Association takes some disciplinary action in connection with the violations of these members, we shall not continue to support the price levels which we had hoped you would be successful in maintaining."

and another paragraph:

> "Something must be done to prevent the evasion of

> minimum price levels by mills changing the colour of pin stripes, etc., as a method for bringing merchandise into the, category of so-called "Discontinued" or "Obsolete" styles."

In June, 1935, (Ex.794) Mr. Thompson of the Canadian Silk Products, Limited, wrote to Douglas Hallam giving notice of withdrawal from the Association unless certain inequalities, represented by differentials in price, were completely eliminated. In July, a meeting was held of interested parties in the City of New York at which Mr. Thompson's contentions were discussed. (See letter July 10th, 1935, Ex.794) On July 17th, Douglas Hallam sent a telegram to Mr. Lawson as follows:

> "Greatly obliged if I could telephone you this afternoon for your decision stop Nordic to withdraw crepe Greenshields and six fifty price wholesalers withdrawn stop Cash deposit furnished by each mill that memo May first be carried out stop Deposits with sritten instructions in hands accountant firm who would decide if infringement has taken place."

In a letter from Douglas Hallam to Thompson, dated July 19th, 1935, it is stated:

> "At the July 12th meeting all the mills present undertook to put up $1,000.00 cash as a guarantee. Nordic agreed to withdraw their crepe from Greenshields, and the six-fifty price of crepe for legitimate wholesalers was to be withdrawn, and the price structure was to be that of the May 1st memo. I was asked to get in touch with mills not represented at the meeting by principals. Between Friday and Tuesday I did so. On Tuesday I had twenty mills in accord on this proposal."

The letter goes on to explain that Mr. Thompson would not agree on any other basis than the same price for branded and unbranded lines. In view of the fact that certain mills were only willing to agree on the basis that there be 100% agreement among the mills, the proposal to bring the mills together was cancelled and the following telegram sent out on the 19th of July:

> "No accord with Canadian Silk possible Agreements therefore cancelled Writing."

In a circular sent out on the 19th of July, 1935, Mr. Hallam urges all mills to carry out sections 3, 4, 5, 6, 7, 8, 9, 10, 11 and 13 of the memorandum of May 1st. The association, therefore, apparently carried on under the terms of the agreement of May 1st until the fall of 1935, when an attempt was made to get the members to sign a new agreement. It is stated by Mr. Hallam that, 11 members only signing this agreement, it never became effective. The evidence in regard to this does not bear out Mr. Hallam's statement. In a letter dated the 6th of February, 1936, from the Canadian Silk Products, Limited, to the Silk Association and registered (Exhibit 793) the Company states as follows:

> " Since our refusal to join the price combine recently proposed by members of the Silk Association for the full fashioned hosiery industry, a certain group of mills have directed unwarranted criticism against Canadian Silk Products, Limited, and have attempted to create the impression in the trade that we are directly responsible for the Association's inability to stabilize hosiery prices. These despicable tactics are entirely contrary to the facts as is evidenced by the number of times we have attended Association meetings with a view to arriving at some constructive arrangement that would stabilize the industry on a basis ensuring a legitimate profit and reasonable price to manufacturer and consumer respectively."

> " Our refusal to accept the price agreement proposed by members of the Silk Association at the Toronto meeting, resulted from information at hand at the time conclusively proving that certain mills were not in a position to carry out the proposals and had no intention of doing so, notwithstanding their expressed statements to the contrary.
>
> In addition to this, we were, and are of the opinion that the proposal was based on price differentials which are entirely uneconomic and cannot be maintained in practice."

Exhibit 793 contains a pencilled memorandum on the note paper of the Royal York Hotel at Toronto and is

in the handwriting of Mr. G. G. Cook of Canadian Silk Products Limited. It reads as follows:

"May 5/36.

<u>Minimum prices</u>

Unbranded		$5.25 plus tax (75¢)	
Branded F.O.B. mill			$5.95 tax inc.
" " store			6.00 " " (1.00)
Branded except crepe	mill or destination		7.50 tax inc.
Unbranded in this category			6.25 plus tax
Branded Crepe	mill or destination		7.75 tax inc.

6.50

<u>Effective for all unconfirmed order</u>"

Mr. Cook and Mr. Thompson gave evidence in respect to this memorandum and it was contended to the Commission that there was no agreement such as indicated in the memorandum. However, on May 14th, 1936, Mr. Cook wrote to Mr. Holzman, The Gainsboro Shoppe, Limited, at Ottawa, as follows:

> " We are surprised to note that Gothams are offering perfect Chiffon for $5.00 tax included, particularly in view of the express agreement made by Mr. John Eagan himself that he would establish a minimum price of $5.25 plus tax. It seems rather unfortunate that the future of the hosiery industry should be jeopardized by this type of operating.
>
> P.S. - Will you please advise the date that Mr. Selig called on you and offered Chiffon hose at $5.00 tax included. This date is very important."

Mr. Selig was a representative of the Gotham Hosiery Company. (Ev. Page 11227). The letter was returned to Canadian Silk Products Limited with a notation:

"May 12th. 11.30 A.M. Bill".

It is quite apparent from this letter that Mr. Cook contended that a price agreement was in effect. The date, apparently, was important. The letter was written nine days after the meeting at the Royal York Hotel. Any conjecture in regard to this is set at rest by a letter of May 16th, 1936, from Canadian Silk Products Limited to W. Holzman, (Exhibit 793). The following is a paragraph therefrom:

> " Many thanks for the pen and ink memorandum answering the question we raised in regard to Gotham's offer. The reason we asked you is because they denied that they have offered hosiery under the $5.25 plus tax price since May 5th."

The Canadian Silk Products Limited went further in the matter and on May 16th wrote to Douglas Hallam stating the Mr. Berry, who was the Assistant Secretary of the Silk Association of Cnaada, had made inquiries from the Gotham Hosiery Company Limited, and that they had told him definitely that they had not offered any hosiery under the Silk Association agreement since it went into effect. The letter goes on to say:

> " We have taken the trouble to check on this and find that their representative offered one of our Ottawa accounts chiffon hose first quality at $5.00 tax included on the morning of May 12th at 11.30 o'clock."

On the 3rd. of July, 1936, Canadian Silk Products Limited wrote to Douglas Hallam:

> " Unless the Association is able to put a stop to these practices we intend to set up our own price structure and we would ask you to be kind enough to give the various members fair warning that we intend to do this. We have been extremely considerate in holding back notwithstanding the underselling that we continually are encountering, but we do not intend to continue to take it on the chin in this respect any longer."

The following buletin is found on the files of Canadian Silk Products,Limited, dated July 29th, 1936:

"No. 1 - Prices for one month: first quality:

	F.O.B. Mill	F.O.B.Destination for 10 dozen & more
Class A	5.25 plus tax	5.95 tax included
Class B	6.25 " "	7.50 " "
Class C.	6.50 " "	7.50 " "

No. 2 - Where a manufacturer has bona fide information that one of his customers is being offered lower prices, he will have the privilege to meet this price or go lower, upon notifying the Secretary.

No. 3.- Mill runs to be stamped "mill run." (Ex. 793)

Mr. Cook stated (Ev. Page 11250) that this bulletin had been sent out by the Secretary but nothing ever came of it.

It is submittted that, in respect to all these matters, Mr. Cook's evidence is highly unsatisfacto y and that it is idle for him to contend that there was no price agreement in operation in May, 1936, when he was writing letters expressly referring to a price agreement that had been in operation since the 5th of May and complaining that it was being broken. In view of the fact that the Royal Commission was sitting at that time and that members of the staff of the Commission had been visiting the Secretary's office requiring information as to the operation of the Association, the members were probably more guarded in their operations than they had been heretofore.

The tariff concessions given to the hosiery industry in 1930 were described by Mr. Thompson, of Canadian Silk Products Limited as "over ample". (Page 11213 and 11267)

" That all foreign competition was practically excluded."

It is submitted that, the action of the organized full fashioned hosiery industry in Canada in combining on a non-competitive basis was something that was likely to be detrimental to the consumers of Canada and should be condemned, and that appropriate action should be taken under the proper statutes.

WOOLLEN AND WORSTED CLOTH:

The Canadian Woollen and Knit Goods Manufacturers Association has a section for manufacturers of woollen and worsted cloth. Certain members of this section met together from time to time for the purpose of arranging prices and terms of delivery on these goods. (p.8092)

No minutes of the meetings were kept. (p. 8093)

Mr. Hallam, the Secretary of the Association, gave no clear evidence as to what took place at these meetings. (p. 8093) He said as follows :-

> "A. I presume that they made notes of it at the time. I may have made notes and sent out ....
> Q. You would be the man that made the notes ?
> A. Sometimes.
> Q. And there would be a bulletin of some kind sent out ?
> A. I may have sent a bulletin out."

A bulletin dated the 20th February, 1936, was produced and Mr. Hallam stated that he did not have a prior bulletin. (p. 8094)

The bulletin of the 20th February, 1936, Ex. 577 reads as follows :-

> " February 20th, 1936.
>
> Terms:- Our terms are 2% - 10 days dating from first of month following delivery, covering shipments up to and including the 25th of each month. Prepayment at 7% per annum.
>
> "All prices given are F.O.B. Mill. If contracts are quoted other than F.O.B. Mill freight will be added to price.
>
> "All sample yardage and yardage cut up for travellers samples to be charged for
>
> "Weights given are in Canadian condition. Tolerance 1-2 oz. over.

"BLUE SERGE.

Two fold warp and filling

	13	14	15	16	17	18	19
Not over 64's	1.50	157½	1.65	1.70	1.77½	1.90	2.05

List price 5ct. or more above these prices.

"GREY SERGE.

Any construction.

	All Worsted			
	13	14	15	16
Not over 60's	1.52½	1.62½	-	-
Not over 64's	1.57½	1.67½	1.80	1.95

Wool Filled.

Not less than 5cts below above prices.

"FANCY PIECE DYES.

no averaging.

(a) 2-ply warp - single worsted filling

	12 oz.	12¼oz.	13 oz.	13¼oz.	14 oz.
58's and under open		-	-	-	-
Over 58's but not over 60's	1.40	1.45	1.55	-	-
Over 60's but not over 64's	1.50	1.55	1.60	1.67½	1.75

(Direction in warp only.)

10 cts advance for warp and weft decoration.

(b) 2 -ply warp - 2 ply worsted filling

58's and under Open-		-	-	-	-
Over 58's but not over 60's	1.45	-	1.60	-	-
Over 60's but not over 64's	1.55	1.60	1.65	1.70	1.80

(Warp Decoration Only.)

10 cts advance for warp and weft decoration.

Minimum of 4 pieces regular patterns and 6 pieces special patterns at minimum price."

At page 8089 Mr. Hallam was examined on Exhibit 575, a letter from Hield Bros., Ltd., Kingston, Ont., manufacturers of woollen and worsted cloth. The letter is dated 15th February, 1933, (p.8090) in which Hield Bros., Ltd., state :-

"I am extremely keen to work in with other Canadian manufacturers and I do feel that at most of the meetings we have held, that I have given the impression of not wanting to work 'hand and glove' with the others."

> "..... I herewith confirm my wire of yesterday's date reading as follows : 'If Dominion and Dupont will advance prices woollen weft grey serge to 1.45 and Renfrew Woollens and Leach advance their cloths to 1.45 am prepared agree prices telephoned, subject no other cloths coming on market.'"

> "..... Also I want to put on record that I do not agree with the minimum price, much as I should like to be able to sell my 60's quqlity 15 & 16 oz at 1.65. I think with bad trading conditions such as we are faced with today, these prices are too high and I think it should be $1.60."

Mr. Hallam was questioned (pp 8092 & etc.) and although this was a matter that Mr. Hallam was expressly charged with administering and must have had a thorough knowledge of the details of all the arrangements and the working of them, he showed remarkable mental agility in evading the questions put to him and avoided giving any intelligent explanation of exactly what took place. He, in fact, went the limit of expressly stating that he did not think there was any agreement (p.8102) and in view of the evidence of Mr. Dodd, which will be referred to later, and the exhibits filed, it would seem that the only thing that could prompt Mr. Hallam in swearing that he did not think that there was any agreement, was in order to cover up what he regarded as an agreement that was in contravention of the laws of Canada, (p.8102)

Exhibit 765, is a file of price memoranda dating from June 26th, 1933 to February 20th, 1936. The earlier ones were drawn in the same style as the hosiery agreements. They were addressed to Douglas Hallam and the opening paragraphs read as follows;

> "Owing to misrepresentations being made as to prices and terms at which our worsted cloths are being sold, we are giving you the lowest prices we sell at to anybody in Canada. We may not make all these cloths but if we do so these will be our lowest prices. We have no objection to your disclosing these prices to other worsted manufacturers. We give no undertaking

not to decrease or increase these prices as raw materials and labour costs vary, but we do undertake to notify you in writing if we propose to make any changes seven days before announcing any such change so that your information will always be correct and up-to-date regarding our mill."

"All prices given are F.O.B. Mill. If contracts are quoted other than F.O.B. Mill, freight will be added to price."

J.G. Dodd, Sales Manager of Paton Manufacturing Co., Limited, and Sales Manager of Dominion Textile Company, Limited, also gave evidence in regard to the operations of the price fixing arrangements in the woollen and worsted group.

In December 1932, Mr. Dodd received a letter from Douglas Hallam (Ex. 763, Part 1) which reads as follows :

"Referring to the statement attached to our letter of the 8th instant in connection with fair prices for blue and grey serges, please note that under the headings 14/13 and 13/12 'single warp' should read 'single weft'."

Mr. Dodd stated in regard to this letter :

"A. That was some months prior to our first serious meeting for discussing the possibility of group pricing." (p.10849)

On the 27th December, 1932, Mr. Dodd wrote to Mr. Hallam as follows :

"Having reference to our suggestion of a minimum price on Greys and Blues, we have since talked with Mr. McMichael, of Brown, Montgomery & McMichael, and he thinks we are running very close to Section 498 of the Criminal Code, although previously they had expressed a different opinion.

"I wonder if you would run over that Section of the Criminal Code, and as no doubt the Association has a lawyer who trenacts any legal business, would suggest asking his advice, telling him what the Cloth members of the Association had in mind." (p.10849) (Ex. 763, Part 2)

The witness stated that following legal advice from Mr. McMichael, the plan at that time was dropped.

Mr. Dodd stated positively, however, that there were a number of members of the Woollen and Knit Goods Manufacturers Association who had a price arrangement. (p. 10857)

One price list for all (p. 10868)

On page 10884, Mr. Dodd gave evidence as follows:

"Q. Apparently when you held these meetings of the mills in respect to arranging prices you met in Mr. Hallam's office ?
A. Correct.
Q. Did he act as secretary for the meetings ?
A. He did at times but usually it was one of our own group who kept track of what we were deciding and then handed the message perhaps to Major Hallam or to one of his secretaries. There was no definite understanding on that, but it is just whatever happened.
Q. That is the way it worked, at any rate, that after the prices had been arranged, then a memorandum of that would be handed to Mr. Hallam ?
A. To Mr. Hallam in his office and sent out.
Q. And where mills were found to be selling lower than these prices complaints were made to Mr. Hallam, were they not ?
A. Exactly.
Q. That was the arrangement, that he would follow up these complaints and see whether they were justified or not ?
A. Right.
Q. That is correct ?
A. Quite correct. " (Evidence, p. [illegible])

The agreements cover such cloths as blue serges and grey mixtures and what is known in the trade as piece dyed fancies. They tried to agree on other lines but it was found that there was such diversified construction of the particular cloth that they had to drop any consideration of making any definite prices, (p. 10895) but they continued from time to time to send their samples with their prices to each of the group members, so that each would actually know what prices were being quoted on respective cloths. (p.10895 - 10896)

Although the prices stated in the bulletin sent out by Mr. Hallam were minimum prices, there was a tacit understanding that an advance of 5cts, or more, would be charged to the general trade. (p. 10898)

The strictness with which each of the member companies adhered to the Association's price list is indicated by a telegram dated February 14th, 1934, from Mr. Dodd to Mr. Hallam, which reads as follows :

> "Cooke clothing -- Have asked us for one per cent discount for an extra month on overdue account. We are refusing it as I believe this is part of the Association's understanding with each other on terms. Is that correct ?"

(p. 10906)

Mr. Dodd was asked in reference to this, and stated on page 10906 :

> "If you will remember, in June 1933, part of that understanding was that terms were to be two per cent cash discount, and we would not have the right to give an extra one per cent to anyone."

Mr. Dodd was asked as to why he had communicated with Mr. Hallam in respect to this matter. He stated on page 10907 :

> "A. If we broke our arrangement with Mr. Hallam the harm would be to the other mills.
> Q. So Hallam was in the centre and the mills were around in a circle ?
> A. He was what you might call the guardian of this. He was there to keep us all in order.
> Q. He was a policeman.
> A. Perhaps as policeman.
> Q. To keep you in order ?
> A. Acting through him with each other."

W.S. Grimshaw, the General Manager of Hield Bros., Ltd., manufacturers of worsted coatings and suitings, gave evidence. (p. 10681).

Mr. Grimshaw produced considerable correspondence both between himself and parties in Canada and the Home

Office of Hield Bros. Ltd, which was located in England.

Hield Bros., Ltd, showed some hesitantcy about entering into the price fixing arrangement. They felt that the prices fixed by the Association were too high. (p.10692)

On February 14th, 1934, the Home Office wrote to the Kingston Branch in reference to the prices of the Association, which is in part as follows :

> "The prices all look very comfortable but we should like to go more closely into them and await your price list." (pp 10693 & 10694)

In a letter from the Kingston Branch to the Home Office dated January 29th, 1934, there was the following paragraph :

> "I enclose you a list showing the minimum prices agreed upon at the meeting for your future reference."

(p. 10696)

In a letter dated 2nd November, 1933, from the Kingston Branch to the Home Office of Hield Bros., Ltd., it was stated (p.10769) that Downs of Downs Coulter & Co., (of Trenton, Ontario) would not come into the price agreement because he said it was illegal.

On December 17th, 1934, R.H. Hield wrote from the Kingston Branch to the Head Office at Crosshills, England, giving a review of the situation in Canada as regards the business carried on here. He used these words :

> "The whole position looks healthy and full of life and I am positive that this is only caused by the fact that we have now brought serges out to such a price that they come within the purchasing power of the mass.
> "Thank heaven we are out of the Association and can now keep our machinery fully employed."

It was explained by Mr. Grimshaw that they continued to be members of the Association but they reached a time when they ceased to enter into any discussion, in regard to price, with their colleagues in the Association.(p.10788)

In addition to a price arrangement it is evident that there was an arrangement expressly limiting competition among different manufacturers of woollen cloth.

In a letter dated January 10th, 1935, from Hield Bros. Ltd, Kingston to D.H. Hield, Summerfield, England, (Ex. 757, Part 18) there is the following paragraph :

> "Dodd of Patons got in touch with me last week and wanted me to go up to a meeting in Toronto for riday to discuss a minimum price basis. I went down to see him about 4.30 and we talked till past six. He said he did not mind how low the minimum basis was set as long as we set one in order that we would all know where we stood with regard to customers playing one mill against the other.
> " He said that Patons, Barrymores and Duponts had deliberately allowed Dominion Woollens and ourselves to book the serge business, but that they were not prepared to go on allowing this a free field and that unless some form of minimum basis was arrived at they would also start competing for the business."

However, Mr. Hield took the definite position that he would not care to bind himself futher to minimum prices.

In addition to the prices fixed by the Association the evidence shows that there were inter-company arrangements in respect to large contracts and that when contractors called for quotations on blue serges for uniforms, the companies making the quality of cloth required would make an arrangement between themselves not to compete on price.

The custom apparently was for large consumers of blue serge uniforms, such as the Canadian National Railway, the Canadian Pacific Railway Company, and Fire and Police Departments of large cities, to let contracts to clothing

manufacturers to manufacture the required uniforms. The contractors would then call on the Canadian manufacturers of blue serge to quote on the cloth for the uniforms.

It was the custom of Mr. Dodd, of Paton Manufacturing Co. Limited, to get in touch with Mr. Barrett or Mr. Cooke, of Dominion Woollen and Worsteds Ltd., who was the only other large manufacturer of this particular type of serge, in Canada, and they would arrange between themselves what prices would be quoted independently by each, and the prices would be the same. In some cases one party would quote independently and this would necessitate a withdrawal of the quotation, if the other party regarded it as too low. (p. 10919)

Exhibit 764, Part 6, is a teletype message from Renwick, a salesman of Paton Manufacturing Co. Limited to Mr. Dodd. It reads as follows :

> "Dominion Woollen quoted Ogulnick $2.35 for their No.880, which competes against our 4556. This was quoted to them yesterday, and I think it would be wise to have Mr. Barrett wire their office here to rescind that price."

Exhibit 764, Part 5, is a teletype message from Dodd to Anderson, the Secretary-Treasurer of the Paton Manufacturing Co. Limited.

> "Tell Renwick to quote both Railroad Companies - Class 4556 quote 2.45. This price has been discussed with Barrett of Dominion Woollens who will quote same. On Class 4561 quote 2.20. As this cloth does not conflict with any of Dominion Woollens have made no arrangements with them."

Ogulnick was a large contract manufacturer of clothing in the City of Montreal.

At pages 10871 to 10877, Mr. Dodd admitted that he made these arrangements with his competitor.

Similar discussions took place between Mr. Dodd and Hield Bros. Ltd, and Dupont Textiles, Limited. (p.10883)

Exhibits 766 and 767 are files of correspondence between Dominion Woollens and Worsteds, Ltd, and the Paton Manufacturing Co., Limited, which show clearly that the practice of arranging in advance the prices to be quoted by each on contract cloth, was a definite practice since 1933, and also that it was the practice where quotations had been put in by one or the other at a lower price than was desirable, that the other party would secure a withdrawal of the price, and quotations submitted at the higher price. These price agreements and this arrangement is still in effect. (p. 10932)

The position of the consumers of these goods in Canada, therefore, was that imporation was practically prohibited and the two sources of supply available to Canada had a definite arrangement not to underquote one another. It might be noted here that tariff protection was given to these producers in respect to the particular types of serges used for uniforms of the nature in question.

A sample of blue serge No. 4556 which was one of the lines quoted on by the Dominions Woollens and Worsteds Ltd., and the Paton Manufacturing Co. Limited, for uniforms for the Canadian National Railway and the Canadian Pacific Railway Company was supplied to the Commission by Mr. Dodd under letter of the 4th November, 1936, with specifications.

Mr. Hooper has obtained a quotation on a competing imported serge from G. Garnett & Sons, Ltd., Manufacturers.

In July 1933 the quoted net price was $1.70 per yard.

The following is a statement of the duties payable on 1000 yards selling in England at 7/- per yard :

1000 yards @ 7/-	::	£350-0-0
Value for duty £350-0-0 @ $4.86 2/3		$1703.33
Duty: Tariff Item No. 554b		
Ad Valorem $27\frac{1}{2}\%$ less 10%	::	$ 421.58
Specific $18\frac{3}{4}$¢ per lb. less 10%	::	$ 237.26
Excise tax 3% on $2362.17	::	$ 70.87
		$2433.04

It will be noted that the import price at that time was $2.43 per yard., not taking into account freight, insurance, etc., the price quoted by Paton Manufacturing Co. Limited and the Dominion Woollens and Worsteds Limited was $2.45. These companies were apparently getting as close to the competing import price as possible without permitting British manufactures to procure the business.

In October the price quoted was $2.55. In January, $2.90 (see Ex. 767, letter dated 5th October, 1933, and letter dated 27th January, 1934.)

Exhibit 786 is a cost sheet filed by Mr. Davies, Cost Accountant of the Paton Manufacturing Co. Limited, This is confidential and shows the cost of production of style No. 4556. The figure shown per yard includes the profit and dividend, but the quoted figure is substantially above the cost per yard as shown on Exhibit 786.

UNDERWEAR (WOMEN'S AND CHILDREN'S)

Exhibits 591,709,710,711,712,713,715,716,717,718 and 719 show that there was an agreement among the manufacturers of women's and children's underwear, similar to the agreement among the manufacturers of full-fashioned hosiery.

This agreement centered around Douglas Hallam, the Secretary of the Canadian Woollen and Knit Goods Manufacturers' Association.

The first evidence of the agreements appears in Exhibit 709, which is a letter from D. Hallam to Mr. Gunn of Penmans Limited, dated the 24th April, 1933, the first two paragraphs of which read as follows:-

> " Owing to misrepresentations being made as to prices at which ladies' underwear is being offered or sold for fall 1933, with results demoralizing to the industry and to the detriment of employees, retailers and manufacturers, I am giving my understanding of your lowest prices on certain merchandise, together with the exceptions.
>
> I understand that no undertaking is made not to decrease or increase these prices as raw materials and labour costs vary, or to produce lower lines than indicated, but that you do undertake to notify me in writing of any changes you are making fifteen days before announcing any such changes, so that my information will always be correct and up to date as regards your mill."

Then follows a detailed description of the different types of underwear covered by the agreement, for example:

"Item C.

Cotton vests - child's: cloth as style A, ladies.
Plain tubular trim - tape optional.
Boxing optional.
Sizes 18 to 34.
Size 30 weight, 8 cut 2 lbs., 10 cut $1\frac{3}{4}$ lbs.

	18/22	24/26	30/34
"No sleeve	1.50	1.75	2.00
Short sleeves	1.90	2.15	2.40
Silk stripe, no sleeve	1.85	2.10	2.35
Silk stripe, short sleeve	2.25	2.50	2.75

Exceptions

Moodie and Zimmerknit 1½ lbs. size 30.

	18/22	24/26	30/34
No sleeve	1.20	1.50	1.80
Short sleeve	1.60	1.90	2.20)made on)smaller)size)basis

Zimmerknit, 1 1/8 lb. size 30:

	18/22	24/26	30/34
No sleeve	1.00	1.30	1.60
Short sleeve	1.40	1.70	2.00"

This agreement was followed by successive agreements making changes in the price structure. (See Exhibits 710, 711, 712, 713, 715 and 719).

The most recent price schedule filed is contained in Exhibit 591 dated August 16th, 1935.

However Mr. Lundy, General Manager of Penmans Limited, gave evidence that these agreements are still in effect. (Page 9734).

It will be noted that not only are these agreements designed to limit competition in price, but the specifications of the cloths used are carefully worked out so as to limit competition in quality.

The practice in fixing these prices was for a meeting of the interested mills to be called and the price fixed, which would be followed up by a bulletin from Mr. Hallam's office. (Page 9729).

Mr. Hallam was questioned in reference to these agreements. (Page 8173).

His evidence in respect to these agreements was lacking in frankness equal to his evidence in respect to

similar agreements in other branches of the industry. Although it is quite apparent that Mr. Hallam could have given a complete and satisfactory account of the operations of this price arrangement, little information was forthcoming from him.

Mr. Lundy, however, admitted that the object of the arrangement was that each mill would maintain the same price for the same article. (Pages 9725 and 9726).

Mr. Lundy attempted to justify the agreement on the ground that the articles covered by it were all the very cheapest lines of merchandise. It is, however, pointed out that this is the type of merchandise that must necessarily be purchased by those with the least purchasing power, and a price fixing arrangement of the character operated here, in addition to the tariff protection given the industry would most injuriously affect those least able to bear the burden.

CHILDREN'S SLEEPERS:

The evidence clearly indicates that there was a price fixing agreement between manufacturers of children's fleece lined sleepers.

Exhibit 708 is a letter from Mr. Hallam to H.W. Lundy, dated December 16th, 1935, and reads as follows:

> " Arrangements have been completed whereby Children's Fleece Lined Sleepers for Fall 1936 will be listed at the following prices:
>
> Sleeper is made on a basis of $5\frac{3}{4}$ lbs., for size 5 and is sold in sizes 1 to 6 at the prices mentioned.
>
> Plain Garment without pocket - 5.70 per doz.
>
> Garment with pocket or with pocket and transfer in same - 5.90 per doz.
>
> These goods are as a rule, boxed $\frac{1}{2}$ dozens, but if wanted papered in one dozens, no change in these prices is to be made."

Both Mr. Hallam and Mr. Lundy were questioned in reference to Exhibit 589, (Pages 8167 and 718) both of these witnesses displayed a remarkable unwillingness to directly answer the questions in respect to the arrangements disclosed in these documents.

Mr. Hallam endeavoured to lead the Commission to believe that in writing letters such as Exhibit 708, he was only carrying out instructions, and sending out the forms.

Mr. Hallam indicated that he had little knowledge of what was taking place. In the light of evidence that had been given this is inconceivable, especially in view of letters contained in Exhibit 1238. Letter No. 6 from Mr. Hallam dated November 2nd, 1935, addressed to Mr. A. Dods, Dods Knitting Co. Limited, Orangeville, Ont., reads as follows:

> " A meeting of the manufacturers of children's fleece sleeper is being arranged on or about December 1st, to discuss fall prices for 1936. Have you any suggestions in regard to this matter. The other manufacturers inform me that present prices will remain in effect till the proposed meeting takes place."

From the attitude of Mr. Hallam and Mr. Lundy in failing to make a full and frank disclosure of all the facts surrounding the price fixing agreements, on these products, one is irresistably drawn to the conclusion that the agreements were injurious to the public and that a complete disclosure would so indicate.

There was no attempt made to justify the agreements on the ground of any necessity, but the whole effort of both these witnesses and especially the witness Hallam, was to conceal all evidence possible in respect to the agreements, except where driven to admissions in the course

of cross examination, Mr. Hallam attempted by evasive an misleading answers to lead the commission to believe that no such agreements existed, and were it not for the fact that members of the Commission staff obtained from the correspondence files of the different companies, letters and documents setting forth, more or less, particulars of the agreements, very little information would have been available to the Commission.

WORSTED MACHINE YARN:

It was the practice for spinners of yarns to meet with Douglas Hallam and discuss prices (Page 8075) and after the discussion a memo in the form of Exhibit 573 would be sent out.

It will be noted that at the top of this Exhibit were the words "Effective from January 21st, 1936."

Mr. Hallam again attempted to evade the question when asked as to the purpose of sending out the memorandum in question with the words on it "effective from January 21st, 1936."

At page 8079 Mr. Hallam stated as follows:

"Q. What was the intention of it - what were you going through this movement for:
A. Because it is of interest to these people to know what the combined prices should be."

At page 8080 Mr. Hallam was asked what the word effective meant, and after considerable starting and stopping finally stated that "that was the date they were calculated from, that is exactly it."

After being examined at length at Page 8082, Mr. Hallam was asked:

"Q. It was an effort to try to get them to maintain this price?"

"A. It was an effort to tell them what the prices should be."

"Q. Now, what was your object in telling them what the prices would be if it was not to try to get them to maintain them?"

"A. I think that is perfectly correct, I think your statement is perfectly correct."

and at Page 8084 Mr. Hallam was asked:

"Q. So that the very object of having the meeting, asking them down, sending out your bulletin effective on a certain date was to try to get the mill, at any rate, to maintain those prices?"

"A. That is right"

"Q. Where did your function in that come in?"

"A. Because these people asked me to do it."

"Q. Who asked you to do it?"

"A. The people who were on this list here."

Those named on the list attached to Exhibit 573 are as follows:

Guelph Carpet & Worsted Spinning Mills Ltd.
Newlands & Co. Limited
Patons & Baldwins (Canada) Limited
Toronto Carpet Manufacturing Co. Limited
Maitland Spinning Mills Limited
Monarch Knitting Co. Limited
Regent Knitting Mills Limited

That there was a very close working arrangement between the spinners of yarn and Mr. Hallam is shown by the correspondence contained in Exhibit 1240, correspondence from the files of the Guelph Carpet & Worsted Spinning Mills Ltd.

Apparently under an arrangement prevailing at the time Mr. Hallam was giving evidence, these companies reported to Mr. Hallam the contracts they made for the sale of yarn, also the prices, and there was a system of registration and exchange of information prevailing.

Although the files of the Canadian Woollen and Knit Goods Manufacturers' Association were supposed to have been made available to the Commission, there seems

to have been a large amount of correspondence that would ordinarily be expected to be on the files that was not produced.

In a circular letter sent out by Mr. Hallam on the 29th, November, 1935, initiating the system of registering contracts, there is the following paragraph:

> " The spinners agree that they will not quote any customer at less than prices at which contracts are registered for delivery during the period the contracts are in force." Exhibit No.1240 - No.176)

Exhibit No. 574 is a memorandum sent out by Mr. Hallam, reading as follows:

> "MACHINE KNITTING YARN
> " Regular yarn prices to be increased by 5¢ per lb. as at today's date.
> Hosiery yarn prices to be increased by 3¢ per lb. as at to-day's date."

A copy of this exhibit is found in the files of the Guelph Carpet & Worsted Spinning Mills Ltd., Exhibit 1240.

A similar document indicating the close working arrangement were found in the files of the Maitland Spinning Mills Ltd., Exhibit 1237, and Newlands & Co. Limited, Exhibit 1239.

The characteristic lack of frankness on the part of Mr. Hallam who was undoubtedly in charge of the operation of these arrangements, does not indicate that the agreements that existed were for the benefit of the public. No effort has been made by the Mills, or anyone on their behalf to justify these price fixing arrangements.

It may be noted that the Dominion Woollens & Worsteds Ltd. for some reason or another refused to enter into arrangements on yarn prices. (Page 8087.)

HAND KNITTING YARN:

Exhibit 587 is a letter from the Guelph Carpet & Worsted Spinning Mills Ltd., to Douglas Hallam, dated the 15th January, 1935, and reads as follows:

> " Replying to your esteemed letter of the 11th inst., we are giving you herewith price lists of the hand knitting yarns we make, along with the quality of top used in each line, and the prices both for the retail and wholesale trades.
>
> | | Top Quality | Wholesale Price | Retail Price |
> |---|---|---|---|
> | Scotch fingering skeins | 46s | $ .75 | $ .82½ |
> | Nymph - Balls | 56s | 1.45 | 1.60 |
> | Fingering " | 60s | 1.70 | 1.80 |
> | Andalusion " | 64s | 2.00 | 2.25 |
>
> We hardly think this information will cover the point you have in mind, and we would suggest that every manufacturer be asked to send to your office a sample of every quality they make, with a number attached to each sample, and then a committee of two members should be appointed to examine the types and determine the quality of top in each type. By doing this the criticism that some manufacturers are actually making yarns from a finer quality of top than the brand calls for, could be really checked."

It is apparent from this letter that there was criticism because some of the manufacturers were taking advantage of others by putting out a finer quality of yarn at the same price. Mr. Hallam does not explain the letter, but the last sentence is incapable of any other construction.

Why should manufacturers be criticising others who are"actually making yarns from finer quality of top" if there was not a definite agreement not to compete as to the price and quality of each brand.

It is quite apparent that Mr. Hallam could have thrown a great deal more light on this subject had he desired to do so. That he did not desire to do so, does not put the manufacturers in a favourable light.

TOWELS:

Mr. Dodd who is Sales Manager of the Dominion Textiles Company Limited, gave evidence that there is an arrangement between the towel manufacturers, viz:-

Stauffer-Dobbie Limited, Galt,
Dominion Fabrics Limited, Dunnville,
and Dominion Textile Company Limited

whereby they would work out their prices on the same basis, as twoels were not identical in construction. Prices were not identical, but having regard to the construction of the towels, the prices were worked out on the same basis.

The organization operated through Mr. Hallam's office, and although he was not an officer of the organization, he was responsible for sending out notices calling meetings, etc. (See p. 11153) also (Ex. 789).

Mr. Dodd stated that if the different companies happened to make the same towel, the price would work out the same (p.10891).

CARPETS:

Exhibit 1192 is a file of correspondence from the files of Harding Carpets Limited of Brantford, Ontario, together with an explanatory letter by Mr. A.E. Cuthbertson, the President. A perusal of the correspondence contained in the exhibit shows that one Kris A. Mapp, a chartered accountant of the firm of Henry, Barber, Mapp & Mapp, was engaged by the four carpet companies of Canada, viz:-

The Toronto Carpet Company Limited
The Guelph Carpet & Worsted Spinning Mills Limited
The Brinton-Peterboro Carpets Company Limited
Harding Carpets Limited

for the purpose of being a sort of clearing house on mutual arrangements that were made between these companies.

The engagement of Mr. Mapp was for the purpose

of establishing a uniform costing basis, discount lists and price structure.

A letter in the Exhibit, dated July 21st, 1934, from the Harding Carpets Limited to Mr. Mapp indicates how the arrangement worked. It read as follows:-

> " In reference to your letter of July 6th, our plans for the next Season are not yet complete. We may possibly have a new Wilton to put on the market but as yet have no details available.
>
> We intend, however, to improve our Sherbrooke quality to make it fairly competitive with Toronto Carpet Company's Kingston. When we put our Sherbrooke on the market, the Kingston was quoted at $18.75 for size 6'9X9. They cut their price to $17.00, and, according to recent agreement, we are now selling at the same price, viz, $17.45. Their rug however, weighs 2¾ lbs. more than ours in the 6'9X9, as a consequence, we have found our sales of Sherbrooke have beem very seriously affected. We propose therefore, to bring our rug to a more fairly competitive construction."

It will be observed that the difficulty that had arisen was on account of the Toronto Carpet Company Limited giving a heavier rug for the agreed price and thus competing on quality, which was apparently regarded as a breach of the understanding.

A letter dated 7th, November, 1934, on the same file, from Mr. Mapp to Harding Carpets Limited outlined an agenda for a meeting at his office, indicates that the arrangements went further than price, discounts, etc., that wage rates were also included in their discussions.

From a letter of the 11th January 1935, from Harding Carpets Limited to Mr. Mapp, it is quite clear that these parties had what they regarded as a fixed agreement on price. The following are four paragraphs from the letter:-

> " In connection with our telephone conversation, I would like to advise that our Montreal office reports to us as follows: "Brinton Carpet Company are bringing out a new seamless line. They are offering this line at the same price as our Douglas list, less 20%."
>
> "I have on file a letter from Mr. Mackie, dated February 22nd, 1934, from which I quote as follows:-

'I, therefore, think it wise to withdraw from further negotiations and carry on without any agreement until an arbitrator is appointed with authority to fix prices for any given quality.'

"Since your appointment, you have interviewed Mr. Mackie, and I understand, have found him unwilling to enter into a reasonable co-operation regarding prices or discounts, although it is true he has worked with us in regard to sales tax and a basis of figuring prices. Furthermore, Mr. Mackie's office has compared with us wage rates on both Axminsters and Wiltons."

"We are under heavy pressure from wholesalers for a lower price on Smyrna rugs for canvassers. This Company has maintained its price on the Oakwood quality, which is the equivalent of Toronto Tecumseh and Newago. We have no intention of breaking the price on this quality unless agreed between the two of us, but as Toronto have the advantage of their lower quality, namely, Kootnai, we propose to meet this demand for a lower price with a lower quality equivalent to Kootnai, which has been a standard with Toronto for some time. We feel that we are not exceeding our agreement by doing so."

In a letter dated 15th January, 1935, from Mr. Mapp to the Harding Carpets Limited, reference was made to an agreement that the discount for B. Smith Limited, of Moncton, and G.B. Ryan & Company Limited, of Guelph be raised from 10% to 12½%.

From this correspondence it is quite apparent that not only did the companies agree on prices, but that they agreed amongst themselves as to what discounts they would allow to individual customers.

On the 30th April, 1935, Mr. Mapp wrote to Mr. Cuthbertson, as follows:-

"I have just returned to Toronto after a short holiday and propose to start immediately on the establishing of standard costs and minimum selling prices in accordance with the arrangements made at our last meeting on the 4th April."

On the 5th September 1935, Mr. Mapp wrote to Mr. Cuthbertson, as follows:-

"This is to advise you that arrangements hav been made for a meeting of the Carpet Manufacturers to be held in my office on Monday the 9th instant, at 2.00 p.m. (D.S.T.) at which meeting prices for the coming season will be discussed."

On the 12th November, 1935, Mr. Mapp wrote to the Harding Carpets Limited, stating that the Guelph Carpet and Worsted Spinning Mills Limited had requested that Vannier & Cook Company of Kitchener be placed on the 15% list, in view of the fact that they were surrounded by other stores that were getting this discount.

There are several other letters of a similar charater on the file which clearly show that the companies did not regard that they were free to trade with customers as they wished individually, and give what discounts they wished, but that they were bound by an agreement amongst themselves not to compete in regard to discount.

On the 17th September, 1936, Mr. Mapp wrote to Mr. Cuthbertson, the last paragraph of which reads as follows:-

> " I have written to the other three companies stating that I have had an intimation from one of the companies of certain changes in prices and asking them if they wish to have a meeting called in order that any changes in prices may be fully discussed. As soon as I hear from them I will communicate with you further."

Mr. Cuthbertson has written a letter to the Commission dated November 19th, 1936, in which he explained that notwithstanding the emergency tariff of 1930, which had preserved the bulk of the Canadian market for Canadian mills, there was a drop of 59% in volume of production. He states:-

> " It is obvious that the Canadian Mills had difficulty in operating on only $2,200,000.00 production. Consequently, and inevitably, they indulged in serious price cutting, each in the effort to obtain as much business as possible. The result was not only disastrous to profits, and dividends were passed, but threatened capital structures. In an effort to put a stop to this destructive price cutting, the four principal mills - Brintons, Guelph, Hardings and Toronto Carpets - met in March 1934, with the idea of establishing a uniform costing basis, discount list and price structure, along the lines of the British Carpet Manufacturers' Association. In this way they hoped to escape the fate of the

many Ontario furniture factories, who went bankrupt, due to similar conditions."

The record of the Carpet Companies has already been dealt with, but in connection with Mr. Cuthbertson's justification of agreements putting restriction on competition among carpet companies which had been successful in 1930 in securing a tariff that greatly restricted competition from abroad, one may again refer to the statements filed by Mr. Howson (Ex. 1184 - 1191).

Harding Carpets Limited, represented by Mr. Cuthbertson, had only commenced business in 1928, and had not paid a dividend since the commencement of business, so that he could not be referring only to his own company when he mentioned that prior to 1934, dividends had beem passed.

The Toronto Carpet Company, the leading carpet manufacturing company in Canada, had shown net revenue on capital employed in operations in the years 1926 to 1931 ranging from a low of 18.6% to a high of 26.8%. In 1931 the net revenue from operations was 8.1%; 1932, 4.3%; 1933, 5.1%; 1934, 8.6%; 1935, 8%. Surely a company with such a spectacular record of earnings over the previous five year period, having been given the additional protection against competition from abroad in 1930, could carry on without entering into non-competitive agreements throughout the depressed period, when the consumers' purchasing power was lower.

Exhibit 1184 filed by Mr. Howson also shows that in only one year did the Brinton-Peterboro Carpet Company Limited show a loss, and that was 1.6% in 1933. Over a ten year period the profits ranged as high as 14% on capital employed in operations.

Exhibit 1017 page 6 shows that the Guelph Carpet & Worsted Spinning Mills Limited, earned in net profits on sales, the following:-

1929	8.7%
1930	7.4%
1931	10.3%
1932	9.3%
1933	9.4%
1934	9.0%
1935	7.9%

This company is dealt with by Mr. Howson in the woollen division owing to the fact that its output is about equally divided between woollen, yarns and carpets.

We have not got the detailed analysis of the earnings, but when we compare the net profit on sales with the net profits on sales of the Toronto Carpet Manufacturing Company Limited, shown on Exhibit 1184 page 3, to be as follows:-

1929	9.9%
1930	11.1%
1931	7.6%
1932	6.0%
1933	9.7%
1934	11.2%
1935	10.0%

we find that in no sense can this company be said to have been indulging in price cutting "so disastrous to profits or threatening capital structures".

On the records of the company, Mr. Cuthbertson's remarks can only be taken to be applicable to the company which he managed. This puts the matter in the position, that in 1930 competition from abroad was substantially excluded by a tariff that gave very exceptional protection to the carpet industry. The beneficiaries of this tariff were not satisfied to compete amongst themselves for the Canadian market, during the depressed period, to give to the Canadian consumers carpets at a lower price. These companies either for the purpose of increasing their own

profits on nurturing a new company in the field, which according to Mr. Cuthbertson's statement was too limited already,as the companies had difficulty in operating on only $2,200,000.00 production; entered into an agreement that they would not sell at the lowest price that the respective companies could afford to sell at, which would have given to the consumer, in a difficult time, some of the benefits of the profits that had been made in prosperous times, but that they would extract from the consumer such prices as would not only support the companies that had been prosperous in the past, but the novice in the field.

That the agreement was effective is shown by the record of the Harding Carpets Limited, in Exhibit 1184.

In 1933 the net profit on sales was 2.5%; in 1934, the first year of the price arrangement, the net profit on sales was 9.8%, in 1935 the net profit on sales was 7.6%, and the company proceeded to go on a dividend paying basis.

BROAD SILK:

The Silk Association of Canada had a section called the broad silk section, in which practically all the broad silk weavers had membership.

In December, 1932, Mr. Hallam sent out a wire on the instructions of Mr. Jackson Marx, the Chairman of the Broad Silk Section, which read as follows:

> " Mr. Marx chairman Broad Silk Section has called meeting Montreal Tuesday morning December twentieth ten o'clock Mount Royal Hotel discuss definite proposals for both immediate and future benefit of industry. Imperative each mill have representative present who can talk business for mill. Wire you will be present." (Exhibit 592)

On December 20th, a meeting of the Broad Silk Section was held at which the following resolution was passed:

> " Following the meeting the Secretary got in touch with various accountants and reported to the Chairman and other members present. It was decided to employ Price, Waterhouse & Co., and each member represented at the meeting was either seen or telephoned, with the exception of Mr. John Lewis, who had left Montreal, and their consent was obtained to having a survey made, the survey not to cost over $100, per mill, and the cost to be equally divided among the mills."

> " Mr. Marx pointed out that figures available showed that during the last twelve months there had been an over production of at least 12%, and that Brupbacher had not been operating. Taken as a whole, the industry could not be expected to have such a good six months in 1933 as buying power was down."

> " The answer was to cut down production in the mills so that over production and stocks overhanging the market would not drive prices to an unprofitable level. If production was not excessive, prices would take care of themselves." (Page 8187 and 8188)

Mr. Hallam was asked in respect to this Minute:

" So that evidently was the object of this enterprise that you are about to start on, was that production would not be excessive so that prices would take care of themselves?"

"A. That is right."

At page 8195 Mr. Hallam was asked in respect to the survey:

" Apparently the ultimate objective of this survey was some organized method of cutting down production?"

"A. If production was excessive, yes."

"Q. Well, that was then, in other words, an organized method of control of production?"

"A. Yes, I would say that."

Exhibit 592 shows that the survey was proceeded with and a report made on the number of looms in operation and the stocks on hand also the hours of operation etc.

In a letter dated 27th, February, 1933, Mr. Hallam wrote to Mr. Marx as follows:

" You will remember we were leaving over another attempt to control production in the broad silk mills until you thought the time was ripe. How does the situation stand now?"

On February 27th, 1933, Mr. Hallam sent out a circular letter containing the following paragraph:

" It would seem, therefore, that in the interest of employees, good customers and the mills themselves that some form of production control be instituted."

The evidence does not disclose that a definite method of arriving at control of production was developed, but throughout the years the major part of the broad silk manufacturers reported their production to Mr. Hallam, who in turn compiled these reports and sent out information monthly to the reporting mills.

The monthly reports contained the following information:

Lineal Yardage Produced: Lineal Yardage Delivered - Against Orders: Stock on Hand at the End of the Month.

The purpose of these reports is stated by Mr. Hallam

at page 8217:

> "Q. So that the mills may be able to govern themselves accordingly in respect to production?"
>
> "A. You have placed it exactly, sir."
>
> "Q. You are continuing this method of reporting and sending out these statements to the mills down to date?"
>
> "A. Correct, sir."

While providing information inregard to production is not a matter to be critized in itself, the close association of the mills with Mr. Hallam and the principle of a tacit control of production is quite apparent.

On May 21st, 1932, Mr. Hallam sent out a circular letter, (Exhibit 606), which reads as follows:

> " There seems to be an impression in the trade that silk mills are overproducing. The writer does not know if this is a fact or not.
> Buyers sense overproduction and hold off buying for two reasons (a) fear they will buy wrong (b) pleasure in jockeying for lower prices.
> Is there overproduction? If so, is there a cure? How about a shut down for an agreed period? Could anything be done about night shifts? Would you attend a meeting to discuss this matter?
> The same situation some time ago faced the full-fashioned hosiery industry. They contemplated an all round shut down for a month. Before doing so other measures were adopted which cured the situation and no shut down was necessary.
> Any opinion you express on this matter will be treated as confidential."

Mr. Hallam states on page 7939 that one of the uses of the production report would be to give a measure of control over production.

Mr. Marx at page 4405 stated:

> " It is a control of production without control."

Any such arrangement as exists in the broad silk section, would likely be very innocuous, were it not that the consumers are prevented from going elsewhere to purchase their requirements. If the Customs Tariff duties

on broad silks were modest, any control of the character that exists in the broad silk industry would not likely operate to the detriment of the public, but with a tariff that makes purchase abroad practically prohibitive, it is then a very simple matter for these mills by operating co-operatively in one association, with an exchange of information on deliveries, production, stock on hand, etc., to regulate the price to the consumer much more effectively than the agreement on any price per yard, which would undoubtedly be very difficult having regard to the diversified styles and characteristics of the fabrics. The result is that it leaves the consumer entirely in the hands of the members of the Association, as Mr. Marx agreed at page 4406,

> " --the production reports operated as a sort of automatic lever."

At page 8225 Mr. Hallam explained how the matter operated and stated as follows:

> "Q. That is how the thing worked - production report was publised and sent out to the mills and then there was a meeting and you interpreted the figures to the meeting there?"
>
> "A. Yes."
>
> "Q. And if they followed your advice that kept the price up?"
>
> "A. Well, it would keep the stock down."
>
> "Q. Well, keeping the stock down kept the price up, that is providing -----"
>
> "A. I should say it would prevent ruinous prices, yes."

Of course, an arrangement of this sort, that was designed to prevent ruinous prices, as Mr. Hallam said, or to stabilize prices, could under the circumstances, with the present Customs tariff, in the same manner operate to obtain exorbitant prices from the consumer.

At page 7941 Mr. Hallam stated as follows:

> "A. I should think it would have the effect of possibly stabilizing prices. In other words, we would not have people producing a lot of stuff and having to throw it on the market."

If the arrangement could operate to regulate production in order to prevent over-stocking the market, it could also regulate production so as to control the stocks available for the market and unduly enhance prices to the consumers.

Growth of monopolies and combines in the textile industry since 1930 is convincing proof that those engaged in the industry, having been successful in 1930 in eliminating competition from abroad, have directed their energies to eliminate domestic competition.

Arrangements for the purpose of limiting competition have been developed during the last five years in almost every branch of the industry. The majority of these arrangements have been directed by Douglas Hallam. No full and fair disclosure of all the facts concerning their objects and operation have been forthcoming by those engaged in the industry. The members of these Associations have not come before the Commission to disassociate themselves from Mr. Hallam's evasive and misleading policy. That they have not done so indicated an election to adopt this attitude rather than to justify the combinations on any legal grounds. The difficulty of justifying the position that the consumers of Canada ought to be subjected to the power of taxation given to the textile industry by the present Customs tariff without modification by the present internal competition, is obvious.

The national interest demands that if international trade has been restriced for the purpose of promoting

domestic trade within the Dominion, that the law ought to be vigilantly and rigorously enforced to remove all illegal impediments to that domestic trade.

To limit competition from abroad by Act of Parliament, and to permit those engaged in production to limit domestic competition, is to place the secondary manufacturers, distributors and consumers of textiles in Canada under the arbitrary control of those engaged in production.

It is common justice that a law more dominant and inexorable should be invoked to safeguard the interests of the consumers than the self-made regulations of the members of the trade associations within the industry.

It is imperative that the law of competition be restored in Canada. Justice to the secondary manufacturers, the distributors and the ultimate consumers of textiles demands that immediate action be taken to suppress all illegal restrictions on domestic competition in the industry, and that the legal restrictions on competition from abroad be so modified as to make the organization of illegal associations to restrict competition ineffective to injure the consumer.

It is submitted that the evidence placed before the Commission should be referred to those in charge of the administration of the Combines Investigation Act, for such action as they may determine.

PART VI

Public and Governmental Relations of the Industry

1. TAX CONCESSIONS.

In addition to the tariff protection that the Textile Industry is receiving from the Government of Canada, the individual companies engaged in the industry have with few if any exceptions received advantages over the ordinary tax payers, from the municipal authorities where their respective mills are situated. These advantages were in the form of either exemption from taxes, commutation of taxes or fixed assessments.

Dominion Textile Company Limited has a commutation of taxes from the City of Sherbrooke. (Ex. 509)

The Wabasso Cotton Company Limited has a commutation of taxes from the City of Three Rivers and received a bonus of $75,000.00 when the company commenced operations in that City.

Associated Textiles of Canada Limited has an agreement with the Town of Louiseville granting it commutation of taxes, and it further received a bonus of $60,000.00 from certain citizens of the Town.

The various plants of Dominion Textile Company Limited have a commutation of taxes or fixed assessments in the various municipalities in which they operate.

The plants of the Canadian Cottons Limited have fixed assessment in the City of Cornwall.

The plant of Courtaulds (Canada) Limited has a fixed assessment in the municipality in which it operates.

The plant of Canadian Celanese Limited has a fixed assessment or commutation of taxes in the Town of Drummondville, Quebec.

These are merely illustrations, but they indicate that there is a prevailing policy among municipalities, in order to induce industries to locate in the municipality, to grant either a fixed assessment or a commutation of taxes. This gives the industry a preferred position over other citizens, who must necessarily pay the taxes which would otherwise be paid by the industry.

It is for municipalities to determine the wisdom of giving concessions of this nature, to assist industry. It, however, ill-becomes those engaged in industry to make chronic complaints of the taxes they are called upon to bear in order to provide services for the public, and to discharge the public responsibilities of the citizens of the Dominion at large.

2. UNDISCLOSED PROFITS.

(a) Canadian Cottons Limited

In the annual reports, from time to time, of several of the industries under investigation, emphasis is laid upon the amount of taxes that are levied on the industry.

In the annual report of Canadian Cottons Limited, for the year 1936, after voicing considerable complaint about unsatisfactory tariff protection, Mr. A.O. Dawson states :

> " What the Canadian Textile Industry is greatly in need of is a period of rest from the following :
>
> 1. Increasing taxation.
> 2. Tariff uncertainty.
> 3. Unfair competition from countries with lower living standards.
> 4. A fuller realization on the part of the Government and of the public that this Industry is one of the Country's most valuable assets in that it provides employment for tens of thousands of our citizens and through its large purchases of materials and supplies it adds very materially to the prosperity

of many of our key industries.
It should be noted also that the Textile Industry, through its very large use of raw materials and the shipping of the finished products of the Mills into every section of the country, both urban and rural, makes a very important contribution to the transportation system of Canada."

In the annual report of the same Company for 1935, Mr. Dawson states to the shareholders :

"Then too, the Cotton Industry, like all other industries, is feeling greatly the burden of increased taxation, which, if continued, will undoubtedly end in disaster, not only to the Enterprises of the Country, but also to the very Men and Governments responsible for the unfortunate position in which we find ourselves."

"Economy in Government, together with a reasonable protection against the products of other countries in which wages are about one-half those being paid in Canadian Mills, would mean the restoration of hope and confidence, now sadly lacking in business circles everywhere."

The files of the Commission contain more letters from Mr. A.O. Dawson, the President of this Company, to members of the Government, than any other one man engaged in the industry, and there is scarcely a letter on file that does not contain a request for further tariff protection, or objections to reduction in tariff protection. Exhibits No's. 463, 464, 465, 466, 467, 475, 476, 477, 478, 479, 488 and 503 are examples of representations made by Mr. Dawson. As late as May 2nd, 1936, he wrote to the Minister of Finance as follows:

"As you no doubt surmised, I was absolutely stunned by the 'knockout' blow you gave the Cotton business when you brought down your Budget yesterday.

"The Rayon end of our business that has not been captured as yet by the Japanese competition will now be taken from us by our British friends. However, we are going to keep our flag flying just as long as we possibly can."

It is submitted that Mr. Dawson's repeated declarations of the impending doom to the industry if not afforded immediate relief, by concessions by way of tariff protection, cannot be with sincerity, when it is disclosed that the Company has an undistributed surplus available for shareholders of $5,782,067.00, (Ex. 917,p.3) of which $2,277,208.81 is a secret reserve, not even disclosed to the shareholders, and an additional $9,000,000.00 accumulated undisclosed surplus represented in fixed assets (see Ex. 917, p.3) and that in addition the Company, having been given the legal opportunity of accumulating these reserves, had taken a secret and unfair advantage of the Government by concealing its profits and failing to pay the required income tax.

Corporations receiving privileges from the Government of the character received by the manufacturers of protected articles, surely are duty-bound to the public, the Governmental authority and their shareholders to make full and fair declaration of the profits earned in the industry, and the financial position of the industry.

It is from the taxpyers and consumers of the country that a protected corporation receives its right to make special profits that it otherwise could not make.

It is the right of those conferring these benefits to be furnished with accurate and honest information in regard to the benefits accruing to the recipients of the special privilege.

In addition to the special obligation that is imposed on corporations manufacturing protected articles in justice to the consumers and taxpayers of Canada, the law imposes certain clear obligations on all corporations.

All companies incorporated under the laws of the Dominion of Canada are required annually to lay before a meeting of shareholders, a balance sheet drawn up to give certain specific information.

Since 1934 that balance sheet has required corporations to show the assets and liabilities of the company distinguished severally, as set out in Section 112 of the Companies Act, Statutes of Canada, 1934, Chap. 33.

Particular reference is made to Sub-section 2 (d) :

> "2. (d) inventory, if any, stating the basis of valuation adopted and the manner in which such valuation has been determined;
>
> (f) lands, buildings and plant, stating the basis of valuation, whether cost or otherwise and if valued on the basis of appraisal, the date of the appraisal and the name of the appraiser.
>
> (l) the amount or amounts of existing reserves for depreciation, obsolescence and depletion;
>
> (m) the total amount received upon the issue of shares in the capital stock which is attributable to capital."

In 1935, the above provisions were repealed and the following substituted :

> "(d) inventory, if any, stating the basis of valuation adopted and the manner in which such value has been determined in respect of various sub-divisions of such inventory;
>
> (f) has become (g) and reads as follows: lands, buildings and plant, stating the basis of valuation, whether cost or otherwise, and if valued on the basis of appraisal, the date of appraisal, the name of the appraiser, and, if the surplus of the company has been increased as a result thereof, the amount by which the value of such assets has been written up within a period of three years prior to the date of such balance sheet;
>
> (l) has become (m) and remains unchanged
>
> (m) has become (n) and remains unchanged."

Prior to 1934 the Dominion Companies Act required the directors to lay before the shareholders annually a balance sheet showing its assets and liabilities so as to distinguish severally, several classes as set out in Section 136 Revised Statutes of Canada 1927, Chap. 27, and which are as follows :

"(d) Stock in trade

(f) Lands, buildings and plant

(m) Amount written off on account of depreciation of plant, machinery, goodwill and similar items."

Since the Income War Tax Act has been in force, corporations have been required to make returns under the provisions of the Act.

Section 33 of the Income War Tax Act reads as follows:

> "Every person liable to taxation under this Act shall, on or before the thirtieth day of April in each year, without any notice or demand, and any person whether liable to taxation hereunder or not, upon receipt of a notice or demand in writing from the Commissioner of Income Tax or any officer authorized to make such demand, deliver to the Minister a return, in such form as the Minister may prescribe, of his total income during the last preceding year.
> (2) In such return the taxpayer shall state an address in Canada to which all notices and other documents to be mailed or served under this Act may be mailed or served. (R.S. C. 97.s.33)"

Section 35 provides :

> "The return in the case of a corporation, association or other body, shall be made and signed by the president, secretary treasurer or chief agent having a personal knowledge of the affairs of such corporation, association or other body, or, in any case, by such other person or persons employed in the business liable, or believed to be liable to taxation, as the Minister may require."

Section 80 of the Act provides :

"Any person making a false statement in any return or in any information required by the Minister, shall be liable on summary conviction to a penalty not exceeding ten thousand dollars or to six months' imprisonment, or to both fine and imprisonment."

Prior to the enactment of Income Tax laws in Canada, the Business Profits War Tax Act was in effect. This Act was first enacted in 1916, 6 - 7 George V, Chap. 11. Section 3 of the act provides :

"(3) There shall be levied and paid to His Majesty a tax of twenty-five per centum of the amount by which the profits earned in any business exceeded, in the case of a business owned by an incorporated company, the rate of seven per centum per annum, and in the case of a business owned by any other person, the rate of ten per centum per annum upon the capital employed in such business. Such tax shall be levied against and paid by the person owning such business for each and every accounting period ending after the thirty-first day of December, one thousand nine hundred and fourteen."

Section 10 of the Act provides :

"Every person liable to taxation under this Act, shall, on or before the first day of July in each year, without any notice or demand, deliver in duplicate to the Minister a return in form J of the schedule to this Act."

Form J required the company to certify among other things to the net profits earned during the year.

In so far as the Statutes apply to the business of the respective corporations under investigation, it is clear that the utmost good faith is required in disclosing to the proper authorities a full and accurate statement of the affairs of the corporations.

From time to time, the Department responsible for the collection of income tax has prescribed forms to be signed by those liable to taxation.

In the form prescribed in 1917, the party signing the return is required to certify that :

"the foregoing return, the supplementary statement, and the additional lists attached thereto, contain a true and complete statement of all income received by the above-named Company during the year for which this return is made."

The form required the tax payer to set out :

"2 (b) Total amount of unimpaired reserve, rest or accumulated profits at the end of the accounting period."

This form also required a statement showing the detailed income of the company from operations.

In 1918 a more complete statement was required in addition to the information required in the former statement. Details of trading and operating were required showing inventory at the end of the period, Cost of goods sold inventory at beginning of period, etc.

The following certificate was required to be signed by an officer of the company :

"Certificate of inventories : I .... the ....(Rank of Official) of the company making this return do hereby certify that the Inventories included in the above schedule were taken on a .... basis and do not contain any allowance for shrinkage or decline in value other than as follows:"

Depreciation is required to be set out in detail and very complete information in regard to assets, liabilities and the profit and loss account.

The form bears the following notation :

"INSTRUCTIONS : Fill in carefully the information required on Pages 1, 2 and 3 of this Form. The schedules on pages 2 and 3 must show in detail how the respective amounts in the Summary on page 1 are reached. In addition thereto every corporation should attach to this return a copy of auditor's report with certified financial statements in duplicate including Assets and Liabilities, Trading or Operating Account and Profit and Loss Account for the accounting period covered by this return. If such statement cannot be provided the schedule on Page 4 of this return must be completed. In cases where an audit is not made it must be so stated."

The statement of assets and liabilities requires full information in regard to :

"Reserve for Depreciation
Reserves for Bad Debts, if any
Other Reserves (Specify)"

Similar certificates were required in the years 1919, 1920, 1921, 1922, 1923, 1924, 1925, 1926, 1927, 1928, 1929, 1930 and 1931.

In 1932 there was a slight change in the form prescribed. The certificate in this year read as follows :

"It is hereby certified on behalf of the above named Company that this return and the statement and schedules attached contain a full and complete disclosure of the total income of the said Company from all sources and that the information given herein is true in every respect and that the expenditures claimed were actually incurred on behalf of the Company, and that the trading, operating and profit and loss accounts and statements of assets and liabilities and other statements submitted or furnished herewith truly reflect the affairs of the said Company."

Clause 15 of the return on page 2 reads as follows :

"Were inventories taken at

(a) cost price?
(b) market value?
If not, on what basis ? "

Clause 16 :

"Are there any reserves against inventories ?
If so, give

(a) total $
(b) amount added in fiscal year 1932
$ "

Clause 17 :

"Are there any reserves not disclosed in the Financial Statements furnished herewith ?

If so, give details below."

and a form is prescribed below for the full information in regard to and a description of each reserve.

Clause 28 of the return contains the following :

"Section 6, Chapter 97 R.S.C. 1927 provides that - In computing the amount of profits to be assessed a deduction shall not be allowed in respect of

(a) disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income;
(b) any outlay, loss, replacement or repayment on account of capital
(c) amounts transferred or credited to a reserve, contingent account or sinking fund, except limited reserves for bad debts and depreciation.

If any of the following items, or like items, were charged as an expense in arriving at 'net income' (Item 27) they must be added to the said net income as indicated below. If no such charge has been made insert the word 'nil'."

Section 36 requires information in regard to

"Reserves other than for depreciation of wasting assets and bad debts."

The same information was required by the forms used in 1934 and 1935.

A complete set of the forms required is attached as Appendix "A" to the copy of this brief filed with the Commission.

The requirements show that corporations are under express obligation to make full and complete disclosure of their financial affairs to the proper authorities.

While Canadian Cottons Limited was vigourously protesting against competition from abroad, and making statements in its annual reports, indicating that the industry was being seriously hampered in its efforts to earn reasonable profits, in fact stating publicly that British competition compelled the company to sell many lines of goods at cost, or below cost, (see Exhibit 340, Annual Report for the year 1935) and that unless steps were taken by the Government to further protect the industry, curtailment of production would be necessary, resulting in a further increase in the number of

workers unemployed, this Company was not only setting aside large concealed reserves, but was not disclosing to the proper authorities its true profits and was depriving the Government of the taxes justly and legally due.

In order to accomplish this, the company filed returns which it is submitted are specifically false over a long period of years.

As has been stated, the Act providing for the taxation of profits came into effect in 1916.

Canadian Cottons Limited changed its policy of valuation of inventory at that time and commenced undervaluing the inventory in varying amounts, thereby creating from year to year a secret reserve, which was not disclosed, either in the annual statement to the shareholders, or in any of the returns that the company was required to make to the Government. It has in fact been shown that the officers of the company falsified the returns to the Government in order to conceal the existence of this secret reserve , which between 1916 and 1936 reached a maximum of $2,506,128.18 and is admitted to be in 1936, $2,277,208.81. (Exhibits 796 and 1228)

The method followed by the company in valuing its inventory from 1916 to 1936 was explained by Mr. Chas. B. Brown, a Chartered Accountant, who is an auditor engaged by the company, but who had no part whatever in the preparation of the company's statements prior to this investigation, and was only called in by the company for the purpose of assisting the company in making up the returns required by the Commission. The inventory is divided into three classes : raw cotton ; goods in process; and finished goods. The company did not take the inventory at cost or market, which is the ordinary accounting practice, and the basis on which the income tax authorities require the inventory to be taken (p. 13212),

but took the inventory and then made certain drastic reductions. In the case of raw cotton, arbitrary figures, much below cost, were taken, and in the case of goods in process and finished goods, the list price was taken and certain arbitrary discounts applied from year to year.

As to raw cotton, Mr. Brown calculated the average cost in the respective years as the basis on which he considered the inventory ought to have been valued.

The result from 1916 to 1936 in respect to raw cotton is as follows :

Year	Mr. Brown's valuation	Valuation used by Canadian Cottons Limited
	¢ per lb.	¢ per lb.
1916	12.30	7.80
1917	16.50	9.25
1918	28.50	7.90
1919	30.50	8.55
1920	40.14	8.00
1921	13.00	6.00
1922	19.84	12.00
1923	28.62	15.00
1924	28.00	15.00
1925	25.19	10.00
1926	19.25	7.00
1927	15.00	5.00
1928	20.50	5.00
1929	20.00	10.00
1930	18.50	7.00
1931	12.50	7.00
1932	9.50	5.00
1933	9.50	5.00
1934	12.20	5.00
1935	13.64	5.00
1936	12.66	5.00

In respect to goods in process and finished goods, instead of valuing these goods at cost or market, whichever was the less, the company took the list price of the goods and made the following deductions :

Year	Goods in Process	Finished Goods
1916	25%	25%
1917	40	40
1918	40	40
1919	40	40
1920	40	40
1921	40	40
1922	40	40
1923	40	40
1924	40	40
1925	40	50
1926	40	50
1927	70	70
1928	70	55
1929	70	55
1930	70	65
1931	60	60
1932	60	60
1933	60	60
1934	60	60
1935	60	60
1936	65	65

(Pages 12109 and 12110 and Exhibit 1228)

The result of this valuation of inventory was to create a secret reserve out of profits over a period of years as follows:

Year	Amount of Inventory Reserve not Disclosed on Balance Sheets.
1916	$ 379,139.83
1917	823,533.44
1918	1,301,061.14
1919	1,590,852.16
1920	2,312,767.56
1921	690,307.67
1922	891,831.94
1923	1,368,424.95
1924	1,265,863.69
1925	1,429,960.88
1926	2,506,128.18
1927	2,138,544.01
1928	2,339,048.43
1929	2,334,113.04
1930	2,346,473.81
1931	1,916,601.77
1932	1,681,793.36
1933	1,670,724.01
1934	1,782,326.90
1935	2,178,675.67
1936	2,277,208.81

Mr. A. O. Dawson, the President of Canadian Cottons Limited sought to justify this reserve on the ground that it was necessary to carry a reserve as against fluctuations in the value of inventory.

There can be no criticism levelled against any corporation for carrying any reserves that it may deem wise and proper in the management of the company, if the reserves are shown and made known to those who are entitled to have knowledge thereof. If the shareholders of a corporation know of reserves it is for them to determine whether the reserves are excessive or not.

If the corporation has disclosed its true profits to the proper taxing authorities, and made known its true financial position to the public and those from whom it obtains special privileges, such as the protection of the Customs tariff, loans, etc., it cannot be criticized for carrying reserves of any sort against possible losses.

It is submitted, however, that Canadian Cottons Limited is open to the severest criticism for carrying a reserve amounting in 1936 to $2,277,208.81 and not disclosing same to those entitled to know of its existence.

That it is even a reserve against possible losses cannot be maintained. It is a secret reserve, which in 1936 was $500,000.00 more than the total amount of inventory as shown in the balance sheet. The discounts taken were far in excess of any discounts that could legitimately be taken for the purpose of protecting the company against probable losses on market fluctuations.

It is submitted that the action of the company in submitting certificates and statements to the Government throughout the years 1916 to 1936, that either did not fully state the facts or falsely stated them, should be condemned.

In the year 1916 the profits of the company were understated by $379,139.83.

The Business War Profits Tax Act was passed for the purpose of imposing a special tax on profits earned during

the war period. The records of this Company show that it had earned very unusual profits during the war years. That it should institute a system at this time whereby it secreted between the years 1916 and 1920 $2,312,767.56 in profits, without paying the required taxes, is most discreditable to the Company and its officers.

Exhibit 995 is a Photostat of the certificate signed by the Secretary Treasurer of the Company and filed with the Department of National Revenue. The photostat is a photograph of the company's file copy and does not show a signature, it was, however, signed when filed with the Department by the Secretary Treasurer.

The certificate reads as follows:

" Certificate of Inventory

I, Alexander Bruce, the Secretary Treasurer of Canadian Cottons Limited, do hereby certify that I have made a careful investigation of the prices on which the inventory of merchandise and materials on hand was calculated for the accounting period which ended on 31st March, 1918, and I make the following declaration, knowing same to be true and correct, viz:

Here state fully the basis on which the inventory was taken at the beginning and end of the period. If any allowance was made for shrinkage or decline in values, the amount must be stated.	Cloth and process stock taken at cost less 15% raw cotton and supplies at cost. At end of period taken on same basis."

The average price of raw cotton for the year was 28.5¢, the price the company used for the purpose of their inventory was 7.9¢. (Exhibit 1228).

The goods in process and finished goods were taken at a discount of 40% of list. The effect of this discount was to conceal profits made by the Company for that year, said to be in an amount of $478,027.70 and to increase the

secret reserve to $1,301,061.14.

An inventory book was kept by the Company that showed the basis on which the inventory was taken.

It is to be regretted that it has to be urged to the Commission, that this statement contained in a solemn document filed for the specific purpose of making a just assessment for business profits tax against the Company, was apparently deliberately falsified.

Mr. Elliott, the Commissioner of Taxation, gave evidence at page 13169 and 13170 :

> "There is nothing in the records of the Department to indicate that there had been any other deduction from inventory than the 15% mentioned in the certificate."

Exhibit 996 is a certificate of the inventory that was filed for the year ending March 1919 and reads as follows :

> " I, Alexander Bruce the Secretary Treasurer of Canadian Cottons, Limited, do hereby certify that I have made a careful investigation of the prices on which the inventory of merchandise and materials on hand was calculated for the accounting period which ended on 31st March, 1919, and I make the following declaration knowing same to be true and correct, viz;

Here state fully the basis on which the inventory was taken at the beginning and end of the period. If any allowance was made for shrinkage or decline in values, the amount must be stated.	Cloth and Process Stock taken at Cost less 15%. At end of period taken on same basis. In consequence of reduced stocks the extra discount was reduced $41,556. Raw Cotton taken at cost and at the end of Period at Cost less Reserve of $230,000. Supplies at Cost at beginning and end of period."

This certificate mentions a reserve of $230,000.00 and is probably more misleading than any other that heretofore had been filed, in that in addition to the secret

reserve that was created by understating the inventory, the Company claimed a deduction from the profits of the year, which amounted to $938,403.82, an amount of $230,000.00 (p. 13171) for reserve, although during the year it had increased the secret reserve from $1,301,061.14 to $1,590,852.16.

The Department refused to allow the $230,000.00 reserve asked for and allowed only $67,250.00. This is cogent evidence that the motive in concealing the secret reserve that had been added/to from year to year was to defraud the Government.

In the year 1920 the Income War Tax Act and the Business Profits War Tax Act were both in force, and returns made under each Act were considered together. The taxpayer paid under the Act which yielded the greater revenue. Later in the year 1920, the price of raw cotton declined from 43¢ in July to 16.65¢ in December. (p. 13172) The Company, therefore, made a claim for exemption from taxation on the profits as shown in the printed balance sheet, to the extent of $823,901.20. (p. 13173) The claim of the Company was that the profits were arrived at after taking the inventory into the balance sheet at $2,042,412.12, (p. 13173), which was claimed to be based on the market before the decline in the price of raw cotton.

The Company had filed with the Department a certificate of inventory on Form J which contained the following words, certifying the basis on which the inventory had been taken :

> "Cost less depreciation deducted as per attached statements to bring amount to correct value current within twelve months of the date of inventory ..... see final statement of profit and loss."

and in the certificate in regard to inventories in the Income Tax return the following words were used :

> " I .... the .... of the Company making this return do hereby certify that the inventories .... has the following value with the reductions shown on the accompanying sheet, was taken at prices generally current within one year of the original date of inventories and have been in no other way reduced." (p.13174)

Taking into consideration the decline in raw cotton during the year 1920 from the peak of 43¢ to the figure given by Mr. Elliott of 16.65¢ the Company was allowed the deductions from these profits for the purpose of taxation of $604,000.00. (p.13175)

It now transpires for the first time that during the very year for which the Company claimed this deduction from its profits for the purpose of taxation, before arriving at the inventory as shown in the printed balance sheet on which it was allowed the deduction of $604,000.00, it had, by undervaluation of its inventory, in effect, provided a secret appropriation to reserve from its profits of $721,915.40, (see Exhibit 1228) on which no income or business profits tax was paid or has ever been paid.

A letter from Mr. Grant of the staff of the Income Tax Department in the City of Montreal to Mr. Breadner, the Commissioner of Income Tax, dated March 17th, 1922, demonstrates in what measure the Company had mislead and deceived the Department in respect to the claim for the allowance of $604,000.00. The letter reads in part as follows :

> "On examining this Company's records we find that raw cotton was taken into inventory on March 31st, 1920, (the close of their fiscal year) at 40.14 cents. On the 2nd of June the quotations on this material, from Newburger Cotton Company, of Memphis, Tenn., was 20 cents. It is obvious, therefore, that the decline of 20 cents is exceeded. It has also been proven that the entire quantity of raw material in at the close of their year was to be absorbed at that date."
> (p. 13206)

That the Company must have shown to Mr. Grant some records that were obviously false, is quite apparent. The Company did not take the raw cotton into inventory at 40.14¢ per pound as stated in Mr. Grant's letter, but at 8¢ per pound (Mr. Brown, p. 13175 and Exhibit 1228), and if Mr. Grant was shown records indicating any such thing, they were obviously untruthful records.

Exhibit 895 contains a copy of a letter dated December 17th, 1921, from the Secretary of the Company to the Commissioner of Taxation. It reads as follows:

> " I beg to confirm figures submitted to the Department in sheet annexed to return in the matter of reduction of Inventory as follows :
>
> RAW COTTON.
>
> 5,823,000 lbs. carried from previous year at approximately 9¢ per pound and shown in Inventory at that figure, was reduced in value on account of slump to 6¢ per pound.
>
> 1,670,404 lbs. taken in Inventory at 40.14¢ per pound being the actual cost price, was reduced to market value by a depreciation of 30¢ per pound.
>
> MANUFACTURED GOODS.
>
> In the March 1920 Inventory manufactured cloth on hand was taken into stock at current values, amount shown $477,050.00. The loss by decline in the market and drop in the Company's Price List brought the value down to $328,978.00. A loss of $148,072."

On February 16th, 1922, Mr. A.O. Dawson wrote to the Inspector of Taxation, Montreal, as follows:

> "With reference to the deduction from Profits of this Company for the year ending 31st March 1920, of $823,901.20 on account of inventory depreciation, we have to state in addition to what we wrote you in our letter of December 17th last, that this amount was arrived at by reference to quotations for the same grades of materials within twelve months of 31st March 1920.
>
> If you consider it necessary we are prepared to substantiate this by quotations, which we have or can procure.
>
> We wish also to mention that up to the time that the market broke our inventory was not lower in quantity, but on the contrary it gradually increased."

In a carefully worded letter to the Inspector of Taxation, dated February 18th, 1922, Mr. A.O. Dawson went into great detail to show what the Company had lost by reason of the decline in inventory values, but never once did he suggest that the profits, as shown in the published balance sheet, had been arrived at after an undervaluation of the inventory for the year by over $700,000.00, and that the Company had a secret inventory reserve which at the end of that year amounted to over $2,300,000.00.

It will be noted that the inventory reserve at the end of the fiscal year, March 31st, 1920, amounted to nearly $300,000.00 more than the value of the inventory shown in the balance sheet, Exhibit 1228.

In the year 1921 the Company made its return on the Income Tax form T2. The printed form reads as follows :

> "Certificate of Inventories : I .... the .... (rank of official) of the Company making this return do hereby certify that the Inventories included in the above schedule were taken on a ....basis and do not contain any allowance for shrinkage or decline in value other than as follows : ...."

The Company filled in, as indicating the basis, the words "cost or market price" (p. 13180) and gave no indication that there were any other deductions. The return was signed by Alexander Bruce, the Secretary Treasurer with the following certificate;

> "I..........hereby certify that the foregoing return, the supplementary statements and the additional schedules attached, if any, contain a true and complete statement of Gross Income and Deductions claimed by the above named Company for the year 1921." (p.13180)

According to Exhibit 1228 the average cost of raw cotton for that year was 13¢, but, however, it was taken into the inventory at a value of 6¢ per pound.

The finished goods and goods in process were taken into inventory at a discount of 40% off list price. Exhibit 1228.

In the year 1922 the certificate on the return was filled in, in the same way with the words "at cost or market price", The average cost of raw cotton for the year was 19.84¢ per pound. It was taken into inventory at a valuation of 12¢, and the finished goods and goods in process were taken into inventory at a discount of 40% off list price.

In 1923, the certificate on the return was filled in, in precisely the same manner/ Although the average cost of raw cotton for the year was 28.62¢ per pound, it was taken into inventory at 15¢ and the finished goods and goods in process were taken into inventory at a discount of 40% off list price . Exhibit 1228.

In 1924, the certificate on the return was filled in with the same words "cost or market price" and no further information. The average cost of raw cotton for the year was 28¢ per pound, but it was taken into inventory at 15¢ and the finished goods and goods in process were taken into inventory at a discount of 40% off list price.

In 1925, the certificate on the return was filled in in precisely the same way. The average cost of raw cotton for the year was 25.9¢ per pound. It was taken into inventory at 10¢, and the goods in process were taken into inventory at a discount of 40% off list price and the finished goods at 50% off list price.

In 1926, the certificate was filled/in by R.G. Tolmie, Acting Secretary Treasurer, all statements in regard to inventory were left blank. There was no statement that would indicate that there was any reduction from inventory or an

inventory reserve. (p.13182)

In 1927, the certificate on the T 2 form was signed by A.O. Dawson, the usual certificate on the face of the form was signed certifying that the return contained "a "true and complete statement of Gross Income and Deductions "claimed by the above named Company for the year 1927". For the year 1927, although the average cost of raw cotton was 15¢, it was taken into inventory at 5¢ and goods in process and finished goods were taken into inventory at a discount of 70% off list price, in each case.

In regard to the basis on which the inventory was taken, the certificate states "cost" after the words "do not contain any allowance for decline in value other than as follows", the word "usual" is written in. There is no indication whatever of a reserve of $2,138,544.00, which was in existence at that time. (p. 13184)

In 1928, the return was filled out, in exactly the same manner.

In the year 1928, the average price of raw cotton was 20.5¢. It was taken into inventory at 5¢ and finished goods and goods in process were taken into inventory at a discount of 70% and 50% respectively off list price.

It might be argued on behalf of Mr. Dawson that the writing in of the word "usual" was an indication that a discount was taken on arriving at the inventory, but having in mind the fact that no suggestion of any such discount in valuing the inventory had ever been made to the Government in the prior years, this argument is untenable. The word "usual" would be designed rather to deceive the authorities in that it would indicate to them that the inventory for this year was taken on exactly the same basis as it had been heretofore and the statements formerly submitted had disclosed

no deductions. The authorities had been led to understand that there had been no deductions from the value of the inventory, but the discount taken this year on raw cotton was 15¢ per pound as against 10¢ the year before and on goods in process and finished goods, it was 70% off list price as against 40% and 50% the year before.

It is submitted this statement to the Department is plainly false.

In the year 1929 the certificate was filled out in exactly the same way.

In 1930 neither the words "cost" nor "usual" appear in the certificates.

The basis on which the inventory was taken is , therefore, not stated, nor is there any statement following the words :"and do not contain any allowance for decline in value other than as follows:" (p.13186)

In the year 1931, the words "cost" and "usual" were inserted as in the years 1927, 1928 and 1929.

In the year 1932, they are inserted in the same manner.

In the year 1933, there was a slight change in the form T 2. The certificate reads as follows:

"It is hereby certified on behalf of the above named company that this return and the statements and schedules attached contain a full and complete disclosure of the total income of the said company from all sources, that the information given herein is true in every respect,that the expenditures claimed were actually incurred on behalf of the company and that the trading, operating and profit and loss accounts and statements of assets and liabilities and other statements submitted or furnished herewith truly reflect the affairs of the said company."

This was signed by A.O. Dawson.

Question No. 15 on the form filed reads as follows:

"Were inventories taken at
(a) Cost price ?
(b) Market value ?
If not, on what basis ? "

In answer to this question the answer is filled in "At cost or list." (p. 13187) and opposite the words "If not, on what basis?" are filled in the words "Less usual discounts".

Opposite item No. 28 is a quotation of the law, and opposite item No. 36 which reads as follows : "Reserves "other than for depreciation of wasting assets and bad "debts" the answer is filled in "Nil".

The returns for the years 1934, 1935 and 1936 were filled in, in the same way.

Throughout these years varying discounts were taken on finished goods and goods in process, and raw cotton was taken into inventory at varying amounts usually less than 50% of the cost.

The returns filed under the provisions of the Business War Profits Tax Act and the Income War Tax Act effectively deceived the Department of National Revenue.

Mr. Elliott gave evidence that as a result of the evidence disclosing that the profits of the Company had been understated for a period of years in the amounts that the inventory had been improperly written down, the Department of National Revenue has a claim against the Canadian Cottons Limited of $409,586.50 exclusive of any claim that might be due for penalties or interest on this sum. This is made up as follows :

Tax due under the Business Profits War Tax Act	$201,369.54
Tax due under the Income Tax Act	208,216.96
	$409,586.50

(page 13195).

Throughout the years during which returns were made to the Income Tax Department, copies of the printed annual statements were sent to the Department with the returns as required. These annual statements contained no suggestion that the Company had a reserve that for years was equal or more than the total amount of the inventory shown on the balance sheet.

A.O. Dawson gave evidence (p.1206-7) as follows:

> "A. The statement is quite clear. It was the same process that had been continued for twenty years. It says distinctly that these figures were taken at cost or list less usual discounts, and the usual discounts were shown there from year to year and were exposed to the Government every time."

It is submitted that in the light of the evidence that has been given by Mr. Elliott and Mr. Grant's letter contained in Exhibit 895, that this statement by Mr. Dawson is utterly without foundation. Not only was there no disclosure to the Government, but the Company seems to have gone out of its way to be careful that the Government would not find out what the truth was.

The forms required were explicit, the answers were not equivocal. The returns did not make truthful disclosure of the facts and the Company has benefited by the non-disclosure to the extent of over $400,000.00.

In regard to those responsible for the conduct of this Company, reference may be made to the following sections of the Criminal Code :

> "413. Every one is guilty of an indictable offence and liable to seven years' imprisonment who, being a director, manager, officer or member of any body corporate or company with intent to defraud,
> (b) makes, or concurs in making, any false entry, or omits or concurs in omitting to enter any material particular, in any book or account or other document. R.S., c.146, s.413; 1925, c.38, s.8."

> "444. Every one is guilty of an indictable offence and liable to seven years' imprisonment who conspires with any other person, by deceit or falsehood or other fraudulent means, to defraud the public or any person, ascertained or unascertained, or to affect the public market price of stocks, shares, merchandise, or anything else publicly sold, whether such deceit or falsehood or other fraudulent means would or would not amount to a false pretense as hereinbefore defined. R.S., c. 146, s.444."

The law in regard to the position of those responsible for the publication of a document which is false in the sense of what it does not disclose, rather than in the sense of misstatements contained in it, is ably deatl with by Mr. Justice Avory in Rex vs Kylsant, 146 L.T.R. p. 22. The learned Judge puts it this way :

> "It is perfectly true that in a criminal Act, which carried with it the penalties of the criminal law, the Act must be strictly construed, but it must be reasonably construed, and in my judgment to construe it in that way would be to shut out a type of fraud in connection with written documents or written accounts which may be of the utmost importance, and that is the type of fraud which may be found in a document, not fraudulent in the sense of what it states, but in the sense of what it conceals or omits."

> "It will cover the case where you have a written statement which is false, not in any specific words or any specific figures which it contains, but which is false in the way in which a document may be fraudulent, namely, where you may take every word and every figure, and say 'Now there is nothing false about that', but the document as a whole may be false - the document as a whole may be false, not because of what it states, but because of what it does not state, because of what it implies."

A judgment of Lord Halsbury in the House of Lords is relied on by the learned Judge :

"I should say, taking the whole thing together, was there false representation ? I do not care by what means it is conveyed, by what trick or device or ambiguous language; all those are expedients by which fraudulent people seem to think they can escape from the real substance of the transaction. If by a number of statements you intentionally give a false impression and induce a person to act upon it, it is not the less false although if one takes each statement by itself there may be a difficulty in showing that any specific statement is untrue.

"....... the prospectus, was false in a material particular, in that it conveyed a false impression, the falsity in this case consisting in putting before intending investors as material upon which they could exercise a judgment as to the existing position of the company, figures which apparently disclose the existing position but in fact conceal it."

In the case being dealt with by Mr. Justice Avory, the Company had obtained money on the strength of a prospectus that did not disclose that dividends had been paid from reserves in years of losses instead of from current earnings.

It is submitted that where a statement is put forward as a Balance Sheet of the Company for the purpose of forming the basis of an assessment to be made under the Income War Tax Act, and it is supported by a certificate that it purports to contain a full and complete disclosure of the total income of the Company from all sources, that the information given is true in every respect, that the expenditures claimed were actually incurred on behalf of the Company, and that the Trading, Operating and Profit and Loss Accounts, and Statements of Assets and Liabilities and other statements submitted or furnished herewith truly reflect the affairs of the Company, and that, notwithstanding this certificate, a large amount

of profits earned is not disclosed, the law, as defined by our Statutes and interpreted in the English Court of Appeal, has been transgressed.

(b) Dominion Textile Company Limited.

In the Annual Report for the year ending 31st March, 1936. (Exhibit 938), Sir Charles Gordon, President of Dominion Textile Company Limited, makes the statement to the shareholders:

> "While the Company has an issue of Preferred Stock, it is evident that the Governments of one kind and another are the real preferred shareholders as their takings this year represent earnings of $42.00 per share on the Company's Preferred Issue."

In making this statement to the public, indicating that the Company is especially burdened with taxation, it, however, is not disclosed to the public that these taxes are all paid by the consumers. While, in fact, it is ordinary business practice for any corporation to pass on to the consumer its municipal taxes etc., this Company passes on its income tax to the consumer. Mr. Gordon was examined in regard to this (Page 12757):

> "Q. Yes, but your sale prices over the period are designed to make a profit?
>
> A. Yes, and to pay income tax.
>
> Q. They are designed to pay income tax.
>
> A. Absolutely."

> "The levels of value at which Cotton and Rayon Textiles can now enter Canada from the United Kingdom, the United States of America, and Japan, under tariff arrangements concluded in recent months, have brought matters to the point where it may be impossible to pursue our previous policy, having due regard to the ultimate welfare of all concerned. The loss involved in producing goods on our former scale, a large proportion of which may now only be sold at prices below the cost of production, is more than even our own sound Balance Sheet position can be expected to stand without danger of grave impairment in a comparatively short time. We are, therefore forced to consider proper steps to conserve the position of the Company until the situation facing us changes. These may entail considerable curtailment of manufacturing operations at our various plants throughout the Province of

> Quebec, but such a tendency was undoubtedly foreseen by the Government in framing its tariff policy if it was expecting, by virtue of its recent reductions in the Textile Tariffs, to increase its revenue from Customs' sources. It must have anticipated that the lower rates of duty would be offset by increased importations of Textiles and realized that the inevitable result of larger imports would be for smaller quantities of such goods to be manufactured in Canada. Despite the inimical conditions under whichthe Textile Industry im Canada is carrying on at present, the prosperity of the Nation as constituted, and the industry is closely related to the same essentials, and we feel confident your Company will come through what can only prove to be a temporary period of adversity."

To make the statement to the public and to the shareholders,

> "that the loss involved in producing goods on our former scale, a large proportion of which may now only be sold at prices below the cost of production, is more than even our sound Balance Sheet position can be expected to stand without grave danger of impairment in a comparatively short time,"

is, to say the least, unfair to the people of Canada, having regard to the benefits that this Company is shown to have enjoyed, and that it still enjoys, at the expense of the people of Canada. To describe the conditions of today as,

> "inimical conditions under which the textile industry in Canada is carrying on at present"

is somewhat lacking in appreciation of the advantages that the industry is enjoying. It may not be unfair to remind the Commission at this point thatthe speaker was one of the largest participants in the original syndicate preceeding the organization of the Dominion Textile Company Limited, and drew during the year being dealt with, a dividend at the rate of 150% per annum on his original investment in Common stock if he still holds it.

The Balance Sheet and Profit and Loss Account incorporated with the statement to the shareholders, however, does not, it is submitted, accurately and truly

show the whole financial position of the Company.

What is said in respect to this Balance Sheet is equally true in respect to the previous Balance Sheets from the year 1915.

On the evidence given before the Commission, it was disclosed that Dominion Textile Company Limited carried a reserve stated to be an Inventory Reserve, part of which was shown on the books of the Company and part of which was not. The policy followed by the Company was as follows: It carried a specific reserve against raw cotton not put into process, and, in addition, in arriving at the inventory from year to year, an involved system of specific discounts was used which will be more specifically described hereafter.

The first appropriation to the Raw Cotton Reserve was made March 31st, 1911, when $500,000.00 was set up. (Page 12695). In 1912 $200,000.00 additional was added. In 1913 $300,000.00 was added, which brought the reserve up to $1,000,000.00. The reserve was reduced by $500,000.00 in 1914, and $500,000.00 was added in 1919, and a further $500,000.00 in 1922. It was maintained at this figure until 1932, when $1,000,000.00 was transferred from this reserve to Investment Reserve. In 1936 $500,000 was transferred from Investment Reserve to the Raw Cotton Reserve, and it is now maintained at $1,000,000.00

Throughout the Financial Statements submitted to the Government and the shardholders up until the year 1933, there was no mention made of any reserve against raw cotton. The Balance Sheet entry for the year 1932 is typical of the entries that occurred in previous years. Under the heading "Assets" there is the following entry:

"Raw Cotton $824,315.74"

It can hardly be suggested that anyone reading the Balance Sheets up until this date could gather from them any idea that the Company had a further asset in the nature of the surplus value in inventory of from $1,000,000.00 to $1,500,000.00.

In the year 1933 under the heading "Inventories" the entry is as follows:

"Raw Cotton, less Reserve $813,725.09"

In the years 1934, 1935 and 1936 a similar entry appears.

In respect to the inventory of goods in process and finished goods, the method of taking the inventory is described in Exhibit 945 and the evidence of Mr. Gordon, (Page 12699 and following),

In the first place the raw cotton in the finished goods and in the goods in process is taken in at the low figure that has prevailed, or fairly close to the low figure that has prevalied, in the history of the Company. (Page 12708). The basis is 5¢ a pound which works out at about 6¼¢ a pound having regard to the quality of cotton in use. (Page 12708).

To the cost of the raw cotton so determined the cost of manufacture from the bale up to the yarn, or up to the roving, is determined without adding on any profit or selling expenses (page 12714), and this is added to the value of the raw cotton determined in the arbitrary manner mentioned.

This gives what is called the face value of the inventory, so far as the spinning and weaving mills are concerned. In respect to other mills, they value the grey cloth on a valuation that has been established

as far back as 1910. (page 12715). This arbitrary value is put on the grey cloth in the converting plants, it bears a variable ratio to the market and has, at times, been higher than the market.

To this value is added a memorandum of increments of value representing cost. They are arbitrary ones representing arbitrary increases for four steps in relation to cost, namely, bleaching, processing, warehousing, packing stock, etc. These arbitrary increases have remained the same over a long period of years. (page 12717).

After the value has been determined in this manner in each department, in certain departments, such as the Weaving Department, a percentage discount is taken of the calculated value of the inventory as it exists. Mr. Gordon explains that this is to provide for seconds. (Exhibit 945).

These discounts are taken before the inventory reaches Head Office. When the inventory reaches Head Office it is then subjected to further discounts. These are called "Summary Discounts" by Mr. Gordon. For example, on the inventory in the Weaving Room they are 20% and 10%. (page 12729). These discounts were set up many years ago, (on the inventory). In the Cloth Room they are 20% and 5%.

The amount of these Head Office discounts, spread over the whole Company, last year, amounted to $380,000.00.

The general run of supplies not likely to be influenced by changes of style trends etc., are subject to a fixed percentage discounts of 25%. Certain types of supplies of an unmarketable nature, or which

are liable to be rendered obsolete or slow moving by reason of change in style of goods, etc., such as certain classes of dyestuffs, are discounted up to 75%. (Exhibit 945).

It may be repeated here that any criticism of the Company and the manner of taking its inventory, or creating either reserves against losses on inventory, or reserve which may be called upon in case of unprofitable seasons, is not a criticism of the policy, but a criticism of the manner in which it has been done. That is, the doing of it is not criticized but the doing of it without disclosure is criticized.

The Balance Sheets, from which the shareholders, the Government and the public must necessarily gather information in respect to the Company's affairs, give no indication whatever throughout the history of the Company that it has been enjoying any inventory reserve in respect to manufactured stock, stock in process and supplies. In fact, the Balance Sheets for the year 1935 and 1936 specifically state that the merchandise and supplies have been valued on the basis of cost or market, whichever was lower. The following is an extract from the Balance Sheet of the 31st March, 1936. (Exhibit 938):

"Inventories:-

Raw Cotton - less Reserve	$1,720,119.73	
Merchandise and Supplies	2,310,524.41	$4,030,644.14

As determined by the Management,
and valued -
(1) As to Raw Cotton at less than the repvailing market price.
(2) As to Merchandise and Supplies on basis of cost or market price, whichever was lower"

Exhibit 947 shows that the inventory reserve, in addition to the Raw Cotton Reserve of $1,000,000.00 already mentioned, amounted in 1935 to $1,486,728.76 and in 1936 to $1,360,096.16. The reserve in respect to the goods in process and finished goods and supplies from 1915 to 1936 was never lower than $1,033,930.76, and reached as high as $3,149,662.26. (Exhibit 947).

The effect on the creation and maintenance of this inventory reserve was not only to conceal assets of the Company, but the result was to conceal the true profits of the Company, as each year the inventory reserve was increased the profits were diminished by that amount, and if the inventory reserve was decreased the profits were accordingly increased over and above the true amount.

In respect to the statements of 1935 and 1936, Mr. Glassco, a Chartered Accountant of the firm of Clarkson, Gordon, Dilworth & Nash, who was called to give evidence on behalf of Dominion Textile Company Limited, was asked in respect to the Annual Statements of 1935 and 1936, insofar as they refer to the method of valuation of the inventory:

> "Q. - - - - - in reading that you, as an accountant, would deduce from it that the inventory of stock, merchandise and supplies was valued on the basis of cost or market, whichever was lower?
>
> A. Yes, I would deduce that that was the case." (page 13772).

If Mr. Glassco, an experienced Chartered Accountant, would be deceived by the language of the Balance Sheet put out to the shareholders, the public and the Government, it would be quite reasonable to expect that those receiving the Balance Sheet would

also be deceived.

In addition, Mr. Glassco gave evidence that he had been employed by the Price Spreads Commission, a Royal Commission investigating certain matters pertaining to industry of Canada. One of Mr. Glassco's duties, was, as an accountant, to get information from Canadian Cottons Limited and Dominion Textile Company Limited in respect to the profits earned by the Companies. Notwithstanding that the Companies were called upon to disclose their profits to the Price Spreads Commission, and to Mr. Glassco as its accountant, no disclosure was made of the existence of the inventory reserves of Canadian Cottons Limited andDominion Textile Company Limited. (page 13771).

In 1921 Section 6 of the Income Tax Act was amended that the only reserves allowed were reserves for depreciation for wasting assets. All other reserves, when discovered by the Income Tax authorities, were added back into profits. (See evidence of Mr. Elliott, page 13230). Mr. Elliott's evidence is as follows:

> "BY MR. McRUER: Q. There is one other thing in regard to valuations. I have been furnished with a statement in regard to Form T2. There was a ruling issued on October 1st 1932, which reads as follows:
>
> 'Claims for Inventory Decline'
>
> For the purpose of assessment, inventories will be taken at cost or market whichever system is adopted by the taxpayer for any particular year.
>
> However, a taxpayer will not be permitted, for assessment purposes, to change his inventory basis after the statutory date for filing the return.'
>
> Do you remember that? A. Yes. In 1921 the law relating to income tax was added to by the following statement. I am stating it by memory. In determining the profits or gain there shall not be allowed the following deductions.

> It is under Section 6, I think. Then it goes on in one of the paragraphs A,B,C or D, reserves except such as are specifically allowed by the Act namely depreciation for wasting assets. Now then that stopped in 1921, all these reserves. If you will observe my evidence from that time on rights through our whole income tax assessments, so far as we knew of any reserves they were always added back. In pointof fact there was not any claims in those years. The statute stood there. Then, returns were filed from time to time that were not in conformity with the published statements to say the shareholders, creditors, banks or the public generally; so we said 'We are not going to play fast and loose with ourselves or with the group of persons I mentioned. What goes in the books is what we are going to go on, and when they file a return with us they must be the same as the books ahd there is going to be no changes thereafter.' In other words, representations for the purpose of reducing taxes alone are not regarded by us as good representations. Therefore, we issued this statement because we had many representations coming in and we wanted to stop them, all across Canada. So we said 'there is no use coming if your statement is not in conformity with your books; we cannot help you. You must file' -- the last papagraph of that statement says 'you must file in accordance with your books', and that is the end of it."

That the existence of these reserves would materially affect the taxes the company ought to pay, is obvious. Owing to the fact that the complete evidence in regard to the reserves became available to the Commission near the close of the evidence, complete evidence in respect to the tax situation is not available to the Commission, but all facts have been placed before the proper taxing authorities for the necessary action.

(C) MONTREAL COTTONS LIMITED:

The method of taking the inventory of Montreal Cottons Limited is precisely the same as that of Dominion Textile Company Limited. (page 13701 and 13702). This system has prevailed since Dominion Textile Company

Limited took control of the Company.

The system that prevailed prior to that was one known only to the Manager of the Company. The details in respect to the inventory reserve were not available at the close of the taking of evidence by the Commission.

The Balance Sheet and Profit and Loss Account are also quite barren of any suggestion that any reserve existed in respect to the inventory.

The Auditors' certificate for the year 1933 read as follows:

"TO THE SHAREHOLDERS
THE MONTREAL COTTONS LIMITED.

We have audited the books and accounts of The Montreal Cottons Limited for the year ended 31st December, 1933, and we have obtained all the information and explanations which we have required.

We report that in our opinion, the accompanying Balance Sheet and the accompanying Profit & Loss Account are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given to us and as shown by the books of the Company.

(Sgd) CLARKSON,McDONALD CURRIE & CO.

Chartered Accountants."

The following is a statement in regard to inventories:

"Raw Cotton	$251,368.60	
Stock manufactured and in process	1,012,132.53	
Supplies	199.554.38	$1,463,055.51"

Assuming Mr. Gordon's statement to be correct that raw cotton was taken into the inventory at a basis of 5¢ a pound, and that manufactured stock and stock in process was subject to the same arbitrary valuations and

discounts, and that supplies were subject to discounts that ranged as high as 75%, it must be assumed that this information was not disclosed to the Auditors of the Company, otherwise auditors of their responsibility could not, and would not, have signed the appended certificate.

In 1935 the statements in regard to inventories was set up in the Balance Sheet as follows:

"Inventories:

Raw Cotton - less Reserve	$549,944.11	
Merchandise and Supplies	1,260,397.73	$1,810,341.84

As determined and certified by the Management and Valued -

(1) As to Raw Cotton - at less than prevailing Market Prices.

(2) As to Merchandise and Supplies - on basis of Cost or Market, whichever was the lower."

The statement as to merchandise and supplies is in precisely the same wording as the wording used in the Balance Sheet for 1935 of Dominion Textile Company Limited. The Balance Sheet contains the following certificate:

"Audited in accordance with our attached report,

(Signed) McDonald Currie & Company.

Chartered Accountants."

The certificate reads as follows:

"AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the books and accounts of The Montreal Cottons Limited for the year ended 31st December, 1935, and we have obtained all the information and explanations which we have required.

We report that, in our opinion, the accompanying Balance Sheet and relative Statements of Profit and Loss and Surplus

> are properly drawn up so as to exhibit a true and correct view of the state of the Company's affiars, according to the best of our information and the explanations given to us and as shown by the books of the Company.
>
> (Signed) McDONALD CURRIE & CO.
>
> Chartered Accountants."

Mr. Glassco's evidence has already been commented on in respect to the statements contained in the Balance Sheets of Dominion Textile Company Limited for the years 1935 and 1936. How the Auditors were induced in 1935 to sign the certificate is not clear.

(d) Drummondville Cotton Company Limited

Mr. Gordon's evidence is that the inventories were taken on the same basis by this Company since it was taken over by Dominion Textile Company Limited in 1929. (page 13703). There were no public statements of Drummondville Cotton Company Limited, as it was a wholly owned subsidiary of Dominion Textile Company Limited. However, the basis of taking the inventory would be important in respect to the taxes the Company ought to have paid. This matter was referred by the Commission to the proper authorities.

In view of the fact that Dominion Textile Company Limited took over Drummondville Cotton Company Limited in 1929, the whole of any profits appropriated to a reserve of this character would be subject to income tax.

(e) Sherbrooke Cotton Company Limited

What has been said in regard to Drummondville Cotton Company Limited may equally well be said in regard to Sherbrooke Cotton Company Limited. This Company was taken over in 1928 by Dominion Textile Company Limited and operated as a subsidiary until 1934. (page 13704)

(f) Penmans Limited

Some years ago this Company set up an inventory reserve of $275,000. It has now been reduced to $150,000, the balance of $125,000 having been transferred to Depreciation Account in 1933. (page 1074).

Prior to the year 1933 no mention of this reserve was made in the Balance Sheets of the Company. In 1933 the item under "Assets" is as follows:

"Inventory of Raw and Manufactured Stock - less Reserve	$1,230,103.83"

It is shown in the same way in the Balance Sheets of 1934 and 1935.

(g) Belding Corticelli Company Limited

This Company set up an Inventory Reserve in 1916. It reached the high point of $557,965.47 in 1929, and at December 31, 1935, it stood at $237,148.43.

Unlike the other Companies dealt with above, it has consistently indicated on its Balance Sheet that there has been a reserve carried. Since 1917, the Balance Sheets on file, after detailing the information in regard to inventory contained the words "Less Reserve". (Exhibit 909).

3. RELATIONS WITH THE CUSTOMS DEPARTMENT

The evidence shows that there were no more aggressive representations made to the Government in 1930 for increased tariff protection than those made by the Silk Association of Canada. In fact, this Association was not satisfied with the increases granted in the emergency session of 1930 but renewed its representations in 1931 by the submission of a further brief. (pages 8254 - 8255). Following these representations, further tariff protection was granted to this industry in 1931.

No stronger advocate of protection appeared before the Commission than Mr. P. R. Watson, the Chairman of the Tariff Committee of the Silk Association of Canada.

It is submitted, however, that the evidence before the Commission indicates that this Association dealt with the Government officials who were charged with the responsibility of administering the tariff laws of Canada in a manner that deserves condemnation.

Under the provisions of Section 6 of the Customs Tariff Act, articles exported to Canada of a class or kind

made or produced in Canada are subject to special dumping duties if offered or sold to the purchaser in Canada at less than the fair market value when sold for home consumption in the usual and ordinary course in the country whence exported to Canada, or at less than the fair market value or value for duty as determined under the provisions of Section 36 of the Customs Act.

It was, therefore, important, in respect to goods being imported into Canada, for the Customs authorities to know whether these goods were of a class or kind made or produced in Canada. If they are not,then the purchaser in Canada is entitled to import them without payment of dumping duties. If similar goods were produced in Canada, it was the duty of the Customs officials to levy dumping duty on importations, in accordance with the provisions of the law.

On February 6, 1934, the Commissioner of Customs received an inquiry from Silks Limited, a Company doing business in the City of Toronto, stating that they had an inquiry from a scarf manufacturer who wished to import from Japan habutai twill fabrics and that he desired to pay duty of 20% under Tariff Item 564. The Company stated:

> "The manufacturer is desirous of obtaining definite information prior to importation regarding the classification of these fabrics so that there will be no mistakes."

On February 10, 1934, the Commissioner of Customs wrote to Silks Limited, setting out certain tariff rates that would apply to importations.

In replying on February 13, 1934, Silks Limited wrote as follows:

> "However, we would appreceaite very much your advice as to whether dumping duty would be applicable on Habutai Twill Fabrics as same are of a class or kind not made in Canada and would be imported only for

> use by scarf manufacturers although not allowed classification under tariff item #564."

On February 15th, 1934, the Commissioner of Customs wrote Silks Limited requesting a sample of the material in question.

On February 19th, 1934, Silks Limited wrote to the Commissioner of Customs enclosing a sample of Habutai Twill Fabric proposed to be imported.

On the 22nd February, 1934, the Commissioner of Customs wrote to Douglas Hallam, the Secretary of the Silk Association of Canada, as follows:

> "Importers of Habutai Twill Fabrics, to be used in the manufacture of scarfs, have raised the question of whether this material, as per sample submitted, is of a class or kind made in Canada.
>
> Your advice is kindly requested at your earliest convenience."

It is submitted that the Silk Association of Canada, having received an inquiry of this sort from a responsible Government official, was in duty bound to communicate to that official all information available so that he might have full and complete knowledge of the situation. Common justice to the Departmental officials, the importers and consumers in Canada surely demanded nothing less of the official organization of an industry that obtained great privilege from special laws passed at its instance. The course that was followed, however, was, it is submitted, not a creditable one.

On the 6th March, 1934, Mr. Hallam wrote to Mr. Jackson of the Department of National Revenue:

> "I have your letter of Feb.22nd re Habutai Twill. Owing to my absence from the office, this was not taken care of before, but the samples are now out in the mills, and we will report as soon as we hear back." (Exhibit 798).

On the same date, Mr. Hallam sent out a circular letter which read as follows:

> "Importers of Habutai Twill to be used in the manufacture of scarfs have raised the question as to whether this material, small sample attached, is of a class or kind produced in Canada.
>
> We understand that the importers desire to bring this in from Japan without the currency dumping duty being applied.
> Please advise us by return." (Exhibit 862)

On March 12, 1934, Douglas Hallam wrote to P.R. Watson, of Grouts Limited, as follow s:

> "Habutai Twill
>
> "I do not quite know how to answer the Customs Department enquiry regarding this material for scarves.
>
> The following mills report they do not make it:
>
> | | |
> |---|---|
> | Associated | Louis Roessel |
> | British American | Riverside |
> | Consolidated | Slingsby |
> | Grout's | |
>
> Is there any fabric made that would substitute for this? Should we get one of the mills to make some of this, and if so which one." (Exhibit 703).

On March 14, 1934, Mr. Watson wrote to Mr. Hallam:

> "As I told you over the 'phone I feel that to tell the Customs Dept. that this snaple of Habati Twill is not made in Canada would be the same as telling them to allow 10 momme plain crepe-de-chine in under this scarf item so that I am putting in work today a 40 yard piece that should be a duplication of the sample attached to your letter.
>
> Is it now possible to tell the Customs that we are making it and we can show it to their customer in ten days time although undoubtedly he will not be pleased with the price compared to the price he can buy it for in Japan if he can get it in under the scarf item." (Exhibit 703).

On March 21, 1934, Douglas Hallam wrote to P. R. Watson:

> "I am holding up my answer to Ottawa re Habutai Twill until I can get a sample from you. Please let me have a sample when ready."
> (Exhibit 703).

On March 26, 1934, P. R. Watson wrote to Douglas Hallam:

"I am sending you enclosed a boiled-off sample of the Habatai Twill of which I am making you a proper length sample.

This will give you some idea of how easily it can be produced although this sample is not anything like the finished merchandise will be and if you do not think it is of nice enough looks to show we will have the sample in very short order for you." (Exhibit 703).

On March 28, 1934, Douglas Hallam wrote to Mr. Jackson of the Department of National Revenue, enclosing the sample at the boiled-off stage, and a further sample stated as "No.2, another Habutai Twill", and stating:

"We would suggest that you advise the enquirer for this type of material to get in touch with Grout's Limited, St. Catherines, Ont., and Bruck Silk Mills, Montreal". (Exhibit 798).

On the 31st March, 1934, the Commissioner of Customs wrote to Silks Limited:

"With reference to your letters of the 13th and 19th February in respect to the application of dumping duty to importations of Habutai Twill Fabric as per sample submitted, imported for the manufacture of scarfs,-

From information before the Department, Habutai Twill, as per sample, is of a class or kind manufactured in Canada by Grout's Limited, St. Catherines, Ont., and Bruck Silk Mills, Montreal." (Exhibit 798).

On the 25th April, 1934, Douglas Hallam wrote to Mr. Jackson of the Department of National Revenue, as follows:

"I find that I have in my office a sample of Habutai Twill made in Canada. I am attaching this to supplement my letter to you of March 28th, 1934, on this subject."

The naive language of Mr. Hallam in suggesting to Mr. Jackson that he must have accidently come across this sample of Habutai made in Canada in his office rather indicates the lack of frankness shown to the Department, and the difficulties the Departmental officials have to contend with in the fair administration of the Customs law.

Bruck Silk Mills Limited were asked for their correspondence with Mr. Hallam in reference to this matter,

and in response they forwarded to the Commission Exhibit No.862. This shows that on March 14, 1934, Bruck Silk Mills wrote to Mr. Hallam as follows:

> "In response to your circular of March 6th, we would advise that we are presently weaving twill fabrics in our mill here and we are enclosing a sample of it."

In the letter to the Commission, however, (Exhibit 862), Bruck Silk Mills state as follows:

> "This Company did not manufacture Habutai real silk twills; the sample submitted to Mr. D. Hallam, with our reply, is a twill fabric of similar appearance made from artificial silks."

It, therefore, appears that Mr. Hallam sent to the Department a sample of artificial silk in his letter of March 28th, (Exhibit 798), calling it "another Habutai Twill", and stating to the Department that Habutai Twill was made by Bruck Silk Mills, Montreal. That either Mr. Hallam or Bruck Silk Mills deliberately attempted to deceive the Department is quite apparent.

Exhibits 800 and 1227 illustrate the inconvenience and disadvantage to which both the Customs Department and the importers in Canada may be put to by lack of fair co-operation on the part of the industry.

In March, 1932, Gault Brothers Limited, importers, made a claim for a refund on an importation of Cotton Crepe on the grounds that the goods were of a class or kind not made in Canada. They were advised by the Department of National Revenue that the goods were of a class or kind made in Canada. They inquired of the Department of National Revenue where Cotton Crepe could be purchased in Canada, stating that they preferred to buy Canadian made goods. They were advised by the Department that the goods "are manufactured in Canada by Dominion Textile Company Company Limited, 710 Victoria Square, Montreal, Que., and others." (Exhibit 800).

On April 12, 1932, the Commissioner of Customs wrote to Dominion Textile Company Limited, sending a sample of Cotton Crepe and inquiring whether this firm was at present manufacturing a fabric which ought to be held of a class or kind manufactured in Canada, and asking the Company, if not manufacturing such goods, to submit names of manufacturers which might be interested.

On April 16, 1932, Montreal Cottons Limited acknowledged receipt of the letter and stated that the inquiry would have their immediate attention and they would write further later.

On April 27, 1932, the Company wrote to the Department stating:

> " - - - - we are pleased to advise that we are fully equipped to manufacture all Cotton Crepe as sample you so kindly submitted with your letter."
> (Exhibit 800).

On April 30, 1932, the Department wrote to Montreal Cottons Limited, inquiring as to whether the Company had already manufactured Cotton Crepe in Canada, and asking them to submit the names of their largest customers. (Exhibit 800).

On May 2, 1932, Montreal Cottons Limited wrote to the Department stating that they manufactured Cotton Crepe, but not exactly as the sample submitted. They went on to state that Cotton Crepe had been very inactive for several years past,

> "but there appears to be a tendency at the moment to return to Cotton Crepes",

but no names of customers were given (Exhibit 800).

On May 6, 1932, the Department wrote to Montreal Cottons Limited, requesting them to advise the Department when the firm would be manufacturing Cotton Crepe in commercial quantities. (Exhibit 800).

On May 6, 1932, the Department wrote to Gault Brothers Limited stating that the question had been further investigated and, on the advice of the Department's Textile Adviser, it was held that Cotton Crepe, as per sample submitted, is, for the time being considered as being of a class or kind not manufactured in Canada, and a refund on the claim was allowed. (Exhibit 800).

On July 4, 1932, Montreal Cottons Limited wrote the Department stating:

> "We now beg to advise you that we are actually producing, in commercial quantities, cotton crepe in exact duplication of the quality referred to in this correspondence." (Exhibit 800).

On the 7th July, 1932, the Department wrote to Gault Brothers Limited stating that from that date Cotton Crepe was considered of a class or kind manufactured in Canada by the Montreal Cottons Limited. (Exhibit 800).

On the 11th July, 1932, Gault Brothers Limited wrote to Montreal Cottons Limited enclosing a sample and asking for samples and prices of the cloth the Company was making. (Exhibit 800).

On the 27th July, 1932, Gault Brothers Limited wrote to the Department of National Revenue, stating that they had asked for quotations and that up to the present time they had had no reply. They further stated that they had placed an order for Cotton Crepe in Japan and expected to have it delivered in September, and asked for arrangements for clearing the shipment. (Exhibit 800).

On August 1st, 1932, Montreal Cottons Limited wrote to Gault Brothers Limited as follows:

> "We produce and have woven a cotton crepe similar to samples received with your letter, and our reason for not writing sooner was the hope of having finished samples to submit to you. These have been

> delayed, however, due to unexpected finishing difficulties, but further goods are in process and we expect shortly to be in a position to complete your enquiry." (Exhibit 800)

On August 3, 1932, Gault Brothers Limited wired to the Department of National Revenue asking to be permitted to clear the shipment in question free of dumping duty. (Exhibit 800).

The Department wired back to Gault Brothers Limited on August 3, 1932, refusing to exempt the goods on the ground that they were of a class or kind made in Canada, and requiring special dumping duty to be paid. (Exhibit 800).

On the 5th August, 1932, the Department wrote to Montreal Cottons Limited, requesting them to submit samples and to state the price at which they were prepared to supply Cotton Crepe in Commercial quantities. (Exhibit 800).

On August 23, 1932, the Department wrote to Montreal Cottons Limited submitting copies of correspondence with Gault Brothers Limited and Stating:

> "Kindly state whether your firm is yet in a position to furnish this fabric or a similar fabric commercially of Canadian manufacture." (Ex.800).

On August 25, 1932, Montreal Cottons Limited wrote to the Department of National Revenue stating that they had not yet had any success in obtaining satisfactory finished results on the material in question. (Exhibit 800).

On August 29, 1932, the Commissioner of Customs wrote to the Collector of National Revenue in Vancouver advising that the former ruling that Cotton Crepe was of a class or kind made in Canada had been an error, and ruled that it was at present of a class or kind not manufactured in Canada.

(Exhibit 800).

On September 19th, 1932, Montreal Cottons Limited wrote to the Department of National Revenue, enclosing a cutting of a sample;

> "as woven, dyed and finished by us, and might mention that our representative is at present in Vancouver, and will submit this fabric to Gault Brothers there, amongst others." (Exhibit 800).

On the 6th October, 1932, the Commissioner of Customs wrote to Montreal Cottons Limitedstating that this fabric would now be held of a class or kind, manufactured in Canada. (Exhibit 800).

On the 2nd February, 1933, the Commissioner of Customs wrote to Montreal Cottons Limited, advising of two importations by Gault Brothers Limited on which dumping duty had been applied, and explaining that they had received from Gault Brothers Limited complaint that they had been unable to obtain these goods from Montreal Cottons Limited and had had considerable correspondence with Mr. Blair Gordon, the Manager, and that they were of the opinion that Montreal Cottons Limited were prepared to admit that they could not make the goods. (Exhibit 800).

On the 14th February, 1933, Montreal Cottons Limited wrote to the Department of National Revenue as follows:

> " - - - we beg to advise that we are not at the moment producing this material commercially." (Exhibit 800).

On the 20th February, 1933, the Department wrote to Mr. Gordon, (Exhibit 1227), stating that the Department had had under consideration for some time whether certain Cotton Crepes imported from Japan were of a class or kind made in Canada or not. The Departmental official went on to state to Mr. Gordon:

"Apparentṭly you make cotton crepe, but one that is not as crinkly as the Japanese article and, on this account the Department has ruled that the imported crepe is of a class or kind not made in Canada.

Personally, I think this is rather a dangerous ruling, as the fabric is a very ordinary one so far as counts of yarn are concerned (I enclose a sample for your information) and I am very much afraid of a ruling based solely on the degree of crimpiness in the fabric, as the question would naturally arise how much crimp would be necessary to take a staple cloth out of the class of goods made in Canada.

Would you mind thinking the matter over and letting me have your views, in case I have made the difficulty quite clear in the foregoing." (Exhibit 1227).

On February 23, 1933, Mr. Gordon wrote to the Department:

"We are not prepared to manufacture this cloth in the small quantity and wide range of colours demanded by this restricted market.

If the cloth becomes of general interest to the trade, or the present ruling is taken advantage of to import other crepe cloths, we shall be forced to change our attitude." (Exhibit 1227).

On the 24th February, 1933, the Department wrote to the Collector of National Revenue in Vancouver, again reversing the ruling, and stating that Cotton Crepe was of a class or kind not manufactured in Canada. (Exhibit 800).

On the 5th March, 1935, the Commissioner of Customs wrote to Montreal Cottons Limited inquiring whether they were manufacturing this Cotton Crepe. (Exhibit 800).

On the 7th March, 1935, Dominion Textile Company Limited, replied to the Commissioner of Customerthat the conditions had not changed since their letter of February

23rd. (Exhibit 800).

There does not appear to have been any justification whatever for Montreal Cottons Limited stating to the Department of National Revenue on the 4th July, 1932 that this Company was

> "actually producing in commercial quantities Cotton Crepe in exact duplication to the quality referred to in this correspondence."

Gault Brothers Limited and other importers had legal rights, and their rights to import this cloth were obviously interferred with by this Company misrepresenting the situation to the Department of National Revenue, the officers of which ought to be entitled to rely on statements made by those for whose benefit the, tariff laws are made.

That the Department ought to engage a staff of private detectives to check up statements of this character, as well as employ a large staff of special auditors to discover whether or not returns filed with the Department are true, seems to put on the taxpayers who already bear the burden of tariff protection, a most unfair addition to that burden.

Exhibit 801 is illustrative of a similar course of conduct as that followed in regard to cotton crepe.

On September 22nd, 1932, the Commissioner of Customs wrote to Dominion Textile Company Limited inquiring as to whether Cotton Lambskin, as imported by casket manufacturers, is of a class or kind at present manufactured commercially by that Company or, to their knowledge, by any other firm in Canada, and asking the Company to return samples. The letter appears to have remained unanswered until the 12th Decemberm 1932, when the Commissioner of Customs wrote to the Company again, quoting the former letter. This

letter remained unanswered until the 3rd January, 1933, when the Commissioner of Customs again wrote to Dominion Textile Company Limited and again quoting the former letter of September 22nd, 1932. (Exhibit 801).

On the 4th January, 1933, Dominion Textile Company, Limited wrote to the Department of National Revenue, advising that the Plain and Embossed Cotton Lambskins were made by that Company and Canadian Cottons Limited, and that the embossing was done by La France Plushes Limited, of Woodstock, Ontario. A sample of one of the cloths manufactured was enclosed. (Exhibit 801).

On the 11th January, 1933, the Commissioner of Customs wrote to La France Plushes Limited of Woodstock, and Canadian Cottons Limited, asking if Plain and Embossed Cotton Lambskin, as per samples enclosed, were manufactured by them in commercial quantities. (Exhibit 801.)

On the 16th January, 1933, La France Plushes Limited wrote to the Department of National Revenue, as follows:

> "With reference to your letter of January 11th, we have delayed answering because we have beem expecting a sample of a fabric closely resembling the material you enquired about to come through our mill. This sample is in process, but for the present is held up on account of an adjustment that is being made to our embossing machine. Just as soon as this fabric is through, we shall be pleased to send you a sample with full particulars." (Exhibit 801.)

This fabric was ruled of a class or kind made in Canada, (page 11679) and it appears that La France Plushes Limited only purchased two lots from Dominion Textiles Limited, of 2,200 and 500 yards.

Although the article is now made by Montreal Cottons Limited, these circumstances would indicate that

the goods were held to be of a class or kind made in Canada, while they were not being produced in Canada in commercial quantities. The lack of explanation of the long delay in replying to the Department's first letter rather suggests that arrangements were being made to manufacture the goods in the meantime so as to have the advantage of this ruling.

4. REPRESENTATIONS TO THE GOVERNMENT IN 1930

In August, 1930, A.O. Dawson, on behalf of the Cotton manufacturers of Canada, presented a letter to the Prime Minister. (Exhibit 495). This letter preceded a brief submitted on behalf of the cotton industry setting out certain drastic increases in tariff protection that the industry desired. The opening paragraph of the letter reads as follows:

> "The Cotton Manufacturers of Canada respectfully suggest that at the approaching Emergency Session of Parliament some assistance be given this Industry in the way of an upward revision of the Tariff."

Four reasons are set out in detail, namely:

1. Mill employees, as a result of not having steady work for the past two years, have reached the end of their resources.

2. Because of lack of orders, a large number of mill hands have had their names entirely removed from the rolls, and unfortunately some these worthy people are now in dire financial straits.

3. If the Cotton Mills are given a fair chance of meeting foreign competition it is felt that a full-time schedule will be put into effect, and a detailed statement is attached indicating what it would mean if the mills would be started on a full-time basis.

4. Full-time operations would mean additional supplies and repair parts, etc.

> "Thus it can be seen at a glance that when full-time is again resorted to by Cotton Mills, the purchasing power of our people will be increased. Every farm, factory, and store in the country would very soon feel the thrill of a new era of prosperity."

The letter further states:

> " - - - - we have prepared a table of Tariff Rates that we believe are necessary to meet

the situation, and this table is presented herewith."

In this letter it is stated:

" - - - that at least an additional 25% of the country's requirements of Cotton Goods could be supplied by the Canadian Mills."

and a memo is attached suggesting ways and means to make it more difficult for dishonest importers to evade the Customs laws.

The letter contains a memorandum indicating the projected increased employment.

However, notwithstanding the fact that the cotton industry received the increases in tariff protection substantially as requested, there was a general reduction in wages put into effect in 1933, which was not completely restored until the fall of 1936.

Advantage has been taken of the increased tariff protection to increase the mill spread to the mills but this has not been passed on to the workmen.

The whole textile industry has openly maintained that the market for labour ought to be permitted to regulate its wage policy. The evidence is convincing that the market in which the employers in this industry purchase is a low one.

The leaders of the industry secured the tariff increases in 1930 on account of the benefits that would enure to the workers. My associate Mr. Beauregard will deal at length with the benefits that have accrued to the employees. But at the risk of trespassing on his field I am emphazing here the general attitude of this industry towards the employees who invest in the industry their lives with no greater return thanthe lowest wages the market will bear.

The employers demand that competition be eliminated from abroad and assert the right to organize, to regulate and eliminate competition among themselves. At the same time they artitrarily deny to their employees the right to organize in their own interest. The employers have for the purpose of asserting their own rights created a powerful and complex scheme or organization but take prompt steps to supress the most feeble attempt on the part of the workmen to organize for their protection.

Such action is a selfish denial of natural justice to that great body of men andwomen on whose behalf the industry claims the right to be subsidized by the consumers of Canada.

It is submitted that the law that gives to any industry this right ought to safeguard to the workers the benefits flowing from the exercise of the rights.

5. RELATIONS WITH THE TARIFF BOARD

The Tariff Board is a statutory body created for the purpose, among others, of investigating and reporting on such matters as may be referred to it by the Minister of Finance in connection with the schedules of Customs tariff in force. The duties of the Board are difficult and onerous. The board exists on account of the protective tariffs that are imposed for the benefit of Canadian industry. Industries receiving the benefit of tariff protection are surely honour bound to fully co-operate with the Tariff Board by placing before it completely and fairly all information which would enable this tribunal to arrive at just and wise decisions.

Several references have been made to the Tariff

Board affecting the textile industry.

One of the important duties of the Tariff Board is to determine the cost of efficient production in Canada. Upon hearing of Reference 83 it was important for the Board to determine the efficient cost of production of cotton yarns and fabrics in Canada as compared with the United Kingdom, in order that the provisions of The United Kingdom Trade Agreement of 1932 heretofore referred to shoudd be observed, namely:

> "ARTICLE 10. - His Majesty's Government in Canada undertake that protection by tariffs shall be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success.
>
> ARTICLE 11. - His Majesty's Government in Canada undertake that during the currency of this Agreement the tariff shall be based on the principle that protective duties shall not exceed such a leval as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production, provided that in the application of such principle special consideration may be given to the case of industries not fully established.
>
> ARTICLE 12. - His Majesty's Government in Canada undertake forthwith to constitute the Tariff Board for which provision is made in the Tariff Board Act 1931.
>
> ARTICLE 13. - His Majesty's Government in Canada undertake that on the request of His Majesty's Government in the United Kingdom they will cause a review to be made by the Tariff Board as soon as practicable of the duties charged on any commodities specified in such request in accordance with the principles laid down in Article 11 hereof and that after the receipt of the Report of the Tariff Board thereon such report shall be laid before Parliament and Parliament shall be invited to vary wherever necessary the Tariff on such commodities of United Kingdom origin in such manner as to give effect to such principles."

On this occasion the Primary Textiles Institute engaged one R.E. Loper, a Cost Accountant of the United States of America experienced in textile matters, for the

purpose of putting before the Tariff Board the costs of production of different fabrics in Canada. the costs that were put before the Board were represented to be the actual costs of production in Canada. It, however, transpired during this investigation that they were not the actual costs of production, but were what are called standard costs of production. These standard costs of production are not reconciled with the actual costs as shown by the financial records of the companies. (See evidence of Mr. Howson, page 12912-13), and, in most cases, no attempt is made to reconcile the standard costs with the financial records of the companies. Mr. Hooper stated at page 12238 that he was unable to find any cost system in Canadian Cottons Limited.

Mr. Loper stated (page 1805) that his firm was asked to prepare costs for submission to the Tariff Board for those different mills on a uniform method of approach. They were not uniform costs, but were a uniform method used in developing them. He was asked:

> "Q. Did you prepare and submit to the Tariff Board the costs of each individual mill or did you make it one uniform statement of costs and submit it that those are the costs of the textile industry of Canada? A. I am not sure that I can answer the question. We had the data specifically by mills and whether Judge Sedgewick asked for it in that form or not I don't know."

Mr. Loper, at page 1816, states that the costs submitted to the Tariff Board were based upon actual costs for the fiscal period just prior to the hearing. However, upon cross-examination, he could give no information as to how these costs were arrived at. (Pages 1818 and 1819).

On presentation of the case to the Tariff Board, it was represented that the costs submitted purported to be the costs of the manufacturers in the industry.

Mr. Hallam was asked: (Page 8805)

> "Q. The costs you submitted purported to be, and you intended the Tariff Board to believe that they were the actual costs of the Company? A. Yes.
>
> Q. Now, there is no mistake about that, you are not misunderstanding, that you intended the Tariff Board to believe that they were actual costs that tied in with the records of the Company? A. Yes, I think we stated that.
>
> Q. Yes, you stated that to the Tariff Board, and you criticized the British that they were not checking back to find out if they did tie in with their financial records? A. I think we brought that forward too."

In 1932 His Majesty's Government in Canada entered into a solemn obligation with His Majesty's Government of the United Kingdom that the proctective duties in Canada would not exceed such a level as would give the United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production, provided that in the application of such principle special consideration may be given to industries not fully established. It cannot be said that any of the industries under review were industries not fully established.

The Tariff Board was entitled to have the most accurate information in regard to the costs of production, not standard or hypothetical costs, or to be told that they were not available. It is submitted, that which was comtemplated by the treaty - the cost of production means the cost in fact, not in theory.

If the facts that were submitted to the Board were prepresented to be the costs in fact, as stated by Mr. Hallam (Page 8805), the Board was asked to come to a conclusion in the performance of a treaty obligation on a basis that was extremely unjust to the contracting parties to that treaty.

Some indication of the frivolous manner in which the terms of the treaty were regarded by responsible representatives of the industry is indicated by Exhibit 633. P.R. Watson, the Chairman of the Tariff Committee of the Silk Association of Canada wrote to Douglas Hallam, Secretary on October 17th, 1935, in reference to a pending hearing before the Tariff Board under the provisions of the Tariff Board Act. The letter reads as follows:

> "In reply to yours of the 15th inst. it has just occurred to me that there are one or two angles that it might be well for us to consider in regards to the coming Hearing before the Tariff Board.
>
> If the Judge and the Tariff Board are not in too good standing and they are liable to be dismissed it would be fair I suppose, to take the attitude that the Government even on the coming Budget would not implement any reports that they may make and if eventually he is going to be removed it might be well for us to consider making the coming Hearing more or less of a shadow, one taking the attitude that there is no use telling your whole story when you will not get hurt one way or the other if you don't.
>
> In fact if you think about this matter the more you think about it the nicer it really sounds if we are all prepared to take the chance."

As has been said, this is not an effusion of an irresponsible party, but comes from the man who was, and still is, the Chairman of the Tariff Committee, and is written to the man who was, and still is, the Secretary of the Silk Association of Canada as well as the other associations in the industry, and who is recognized by those engaged in the industry as a most responsible representative.

It appears that Mr. Watson considered that he was entitled to use a hearing before the Tariff Board held pursuant to a treaty obligation to suit his own purposes, rather than considering that he and the industry were obliged in all cases to make full and com-

plete disclosure to this tribunal.

A similar attitude was taken by W.J. Whitehead, the Managing Director of The Wabasso Cotton Company Limited, in respect to Reference 83, which was an application made under the provisions of the treaty on behalf of the English manufacturers of cotton yarns and cloths.

On the 4th November, 1935, Mr. Whitehead wrote to the Cotton Institute of Canada (Exhibit 623), as follows:

> "We have read over your letter of October 31st very carefully and, in our opinion, feel that it would be unwise to bring up this question of ring yarn. As you know, the hearing on these yarns covers yarns for sale, which yarns covered by the counts shown go mostly to knitters."
>
> "In England, the practice, we understand, is to spin these yarns on mules. Here, we spin some on mules and some on rings, to suit our own convenience and comply with the customers requests for mule yarns."
>
> "Most of the English yarns imported into this country are mule spun yarns and we feel that we certainly would be disclosing something to our disadvantage if we informed the Tariff Board that we use ring spun yarns at lower cost for the same purpose that the Englishman sells mule spun yarn at higher cost. The ring spinning cost of yarn will be fully covered under the cloth costings in which group they really belong."

The exhibit contains some further correspondence in regard to the matter, and some attempts were made to explain it away, but the fact remains that Mr. Whitehead was fearful of disclosing anything that would be to the disadvantage of the industry.

It is submitted that, in the interests of the industry itself, it would preserve a wholesome regard for those engaged in the industry and raise them in the public estimation and respect, as well as in the confidence of those administering the Tariff laws, if, at all times and in all cases, the representatives of the industry would be scrupulously careful to see that all information affecting

their industry was made available to the proper officers, so that they would be in a position to discharge their duties under the various statutes under which they operate, irrespective of what the result may be.

This may be considered to be too high a standard of morality to expect of ordinary citizens. It is submitted, however, that it cannot be too high a standard of morality to expect of those who received at the hands of the Government special privileges that take from consumers their natural rights.

6. RELATIONS WITH THE INVESTING PUBLIC

The record of the cotton companies, several of the knitting companies and one of the large woollen companies shows that the burden on the consumers of Canada has been aggravated by the process of capital inflation that has taken place repeatedly over a long period of years.

The history of Dominion Textile Company Limited is given in detail herein. Between 1874 and 1905 there were periodic amalgamations and mergers that finally culminated in the organization of Dominion Textile Company Limited in 1905.

Just how much capital stock was outstanding in the hands of the public at that time, in respect to the various companies which were ultimately brought into merger, which was in the nature of bonus stock, is difficult to determine. In 1905, 45,000 shares of Common Stock of Dominion Textile Company Limited, par value $100.00 each, were issued, for which there was no actual investment made. These can properly ~~possibly~~ be called bonus shares. In 1923 the Company was recapitalized so

as to split these shares three for one.

The result is that the original investors have no doubt been able, at appropriate times, to liquidate their bonus shares through the Stock Exchange and now they are widely distributed in the hands of many investors who have purchased them, not from the Company but from those that ~~have~~ had them to sell.

A similar process was followed in regard to Canadian Cottons Limited. This Company has outstanding Common Stock to the extent of $2,715,000.00, $2,000,000.00 of which consists of bonus shares, and an unknown quantity of the Preferred Stock. These bonus Common Shares are now widely distributed.

The same situation exists in regard to Montreal Cotton Company Limited and The Wabasso Cotton Company Limited.

In The Wabasso Cotton Company Limited all the Common Shares that were originally issued were issued as bonus shares. These were split two for one and are now widely distributed in the hands of the public.

In respect to Penmans Limited, all the Common Stock may be termed bonus stock and 40% of the Preferred Stock. The Company has recapitalized so as to split the Common Shares three for one and these in turn are now widely held in the hands of the public.

Many other companies have followed the same course in regard to their capitalization. The effect is that promoters of mergers and amalgamations have succeeded, by a process of recapitalization and refinancing, in getting into their hands a large amount of capital stock for which they have paid nothing, and the management of the companies is expected to produce a dividend on

this stock. The Government of the country is called upon to furnish tariff protection to enable the management to do so. The consumers and the employees have to bear the burden of the dividends.

If the Government gives to an industry tariff protection, it is unjust, both to the consumers and to the investing public who buy shares on the market, that financial interests should be permitted to take advantage of the benefits of protection to exploit both investors and consumers.

A. O. Dawson, in writing to the Hon. C. A. Dunning on the 29th November 1935, (Exhibit 464) based his claim for further protection against competition from Japan on the following grounds:

> " ----Because my own company is becoming hoary with age, a great many of the shares are now owned by widows and orphans. Some three or four years ago when we had to discontinue paying dividends it was simply heart-breaking to me to receive personal calls and letters from people who informed me that the withdrawal of our dividends brought them on the verge of starvation."

It is difficult to suggest that anything can be done to remedy what has been done in the past, but it is suggested that unless some measure of investment control is adopted, promoters will soon be amalgamating and merging the silk companies, the cotton companies and many other textile companies whose "plants and balance sheets" will justify re-appraisal, with a view to creating new bonus stock to be sold to the public in due course, and further applications will be made to the Government for the maintenance of protection to safeguard the interests of widows and orphans.

7. HUMAN RELATIONS.

The evidence contains innumerable references to complaints and threats made by different members of the industry in regard to, or as a result of, trade treaties or tariff modification. No more cogent example, however, is shown than the one already dealt with in regard to the treaty negotiated with the Japanese Government in the fall of 1935.

That the largest, most resourceful and wealthiest corporation of the whole textile industry should, immediately following a meeting with the Ministers at Ottawa, close one of its mills, with the statement to the press;

> "Hope to re-open when we can see possibility of manufacturing goods which can be sold", (page 2178),

is convincing evidence that influential members of the industry consider they have no responsibility to the Government , to their workers, or the public. This Company at any rate was willing to sacrifice the interests of the workers in order to accomplish by force what it feared could not be accomplished by reasonable negotiations, which had been in no sense denied to it but was in reality still in progress.

The same spirit was somewhat demonstrated in a telegram that was sent by B. Gordon, the Managing Director of the Dominion Textile Company Limited to Delphis Lachance on the 27th August, 1936. (Exhibit 747). Lachance was a worker at the Montmorency Mill and had interested himself on behalf of the workers, and was Secretary of Syndicat Catholique du Textile de St. Gregoire. He wrote to Mr. Gordon asking for an opportunity to discuss with him the matter of wages paid at the mill. The con-

cluding paragraph of his letter reads as follows:

> "Should you accept to discuss the question of salaries for the workmen of Montmorency, I trust you will advise me by wire, not later than Thursday evening." (Exhibit 747).

The wire from Mr. Gordon to Mr. Lachance dated the 27th August, reads as follows:

> "Regarding your letter August twenty-fifth we do not propose to discuss the affairs of this Company with people like yourself who are only presuming on the indulgence of the Company and using the ignorance of a small number of our employees to assume an air of false importance stop if any trouble arises from attempts on your part to disturb the conditions under which the Company has worked in harmony with its employees over many years we will make it plain to the Government where lies the responsibility of fomenting discord stop you may be surprised when you find out that the Royal Commission will give the distorted evidence of a few grumblers its true value stop we continue to believe in the good sense and loyalty of the vast majority of our employees and as in the past the Management of this Company will be conducted with their true interests at heart."

That Mr. Gordon should assume to tell Lachance what views the Royal Commission would take of the evidence that was given at Montmorency was probably nothing more than a foolish burst of temper, but, to a representative of the workers, who was endeavouring to open up negotiations leading to higher wages for the employees, it would only be interpreted that Mr. Gordon was in some special position to forecast the findings of the Commission.

Mr. Gordon makes the statement:

> "We continue to believe in the good sense and loyalty of the vast majority of our employees and as in the past the Management of this Company will be conducted with their true interests at heart." (Page 10563).

A survey of the wages paid at Montmorency would

rather indicate that if Mr. Gordon had the interests of the workers at heart, a conference with them and their representatives would have proved beneficial.

The evidence shows that in its relations with the public and its employees the leaders of this industry have maintained little regard for human relations. The laws of power appear to have dominated and directed the policy of the industry, rather than regard for justice.

The strife between capital and labour will continue with unremitting bitterness as long as employers seek legal advantages and special privileges from various Governments of the Dominion and arrogantly deny to their employees, on whose behalf these advantages are obtained, any share in or control over the direction of the policies under which the fruits of those advantages and privileges are distributed.

From time immemorial suppressed human nature has been rebelling against burdens of injustice placed on it by those enjoying special privilege. With the progress of enlightenment, this revolt has gained momentum. Violent eruptions have been avoided in democratic countries by giving to the people a greater measure of the responsibility of self-government.

Self-preservation demands that the leaders of industry realize that only by the adoption of those principles that have preserved justice and freedom in democratic countries will the devastation of drastic industrial revolution be avoided in such a manner as to preserve to all parties the measure of justice to which they are entitled.

aced

ion.

les